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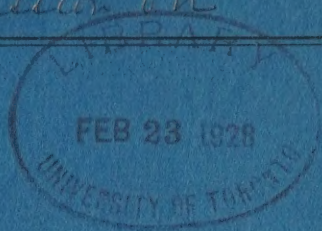


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ROYAL COMMISSION ON CUSTOMS AND EXCISE

INTERIM REPORTS

(Nos. 1 to 10)



OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1923

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ROYAL COMMISSION ON CUSTOMS AND EXCISE

INTERIM REPORTS

(Nos. 1 to 10)



OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1928

Royal Commission on Customs and Excise

INTERIM REPORT No. 1

To His Excellency the Governor General in Council:

Your commissioners appointed to investigate the administration of the department of Customs and Excise beg leave to make the following interim report:—

We have, during the last few days, conducted an investigation into the case of the boat *Chris Moeller* and her cargo of liquors. This boat cleared during the latter part of last week from the port of Vancouver for San Blas, Mexico, with 17,779 cases of liquor, which she took on board at that port. She afterwards called at the port of Victoria, with the object of taking on board an additional 3,700 cases of liquor, but was refused a clearance from that port pending said investigation. All these liquors, which constituted the sole cargo of this boat, were purchased by the Manitoba Refineries, an Export Liquor Company of British Columbia from dealers in Great Britain, and were shipped on a through bill of lading, arriving at Victoria and Vancouver in the month of July last by the Canadian Freighters. The bills of lading called for the forwarding shipment to San Blas by the Eastern Freighters.

At the time that the liquors arrived at the British Columbia ports, the Manitoba Refineries had no purchaser at San Blas, and the goods have been left in sufferance warehouse during this period of some four months, awaiting a satisfactory purchaser from the Manitoba Refineries, and the opportunity to finance the shipment by the Manitoba Refineries.

The so-called Eastern Freighters, the transportation company, by which the liquors were to be sent forward, and which is composed of a man by the name of Morgan, living at Vancouver, was organized primarily for the purpose of transporting this cargo. At the time of the arrival of the liquors at the British Columbia ports, this company had no ship chartered or otherwise. Quite recently the Manitoba Refineries have received large sums of money, which had been telegraphed from banks at Los Angeles and San Francisco as payments in advance on these liquors, and their president has stated in evidence that the purchaser is a man living at San Blas by the name of Rodriguez, and that it was he who forwarded the moneys through the banks referred to.

The Eastern Freighters have just recently chartered the boat *Chris Moeller* for the express purpose of carrying forward this cargo of liquors, and have engaged as captain a man by the name of A. G. Lilly. We should also add that the liquors in the first place were shipped to the ports of Victoria and Vancouver by way of the Panama canal, and consequently passed San Blas, Mexico, the point of final destination. It appeared also in evidence that San Blas is a small village, where there is no port or harbour, and which it would be impossible for a boat such as the *Chris Moeller* to approach at all.

As these liquors were shipped in transitu on a so-called through bill of lading, no duties have been paid on same, and no bond has been furnished for entry outwards, and it is contended that under the last proviso of section 101 of the Customs Act as amended, that no such bond is necessary.

After hearing much evidence in connection with this matter, including the evidence of Jesse A. Nosentoff of Vancouver, the President of the Manitoba Refineries, and R. M. Morgan, who in reality constitutes the Eastern Freighters, and Captain A. G. Lilly in charge of the boat, and after hearing the argument of counsel for the Manitoba Refineries and the Eastern Freighters, your commission, at its last session in Victoria made the following pronouncement:—

“With reference to the *Chris Moeller*, which demands immediate attention, we find as a fact that the liquors in question were stored at Customs warehouses for a period of some four months to suit the convenience of the Manitoba Refineries, and until such time as they could find a purchaser and finance the shipment. They were not there solely for the purpose of shipment in transitu, and consequently should not be entered for export except under the protection of a bond to double the value of the import duty.

“We therefore propose forthwith to report these findings but in greater detail to the Governor General in Council.

“There is another and more serious phase of this matter which we cannot ignore, but on which we are not disposed at present to make a finding or report. The evidence thus far adduced indicates that the attempted shipment of this cargo of liquors is in disregard of the expressed provisions of the Customs Act and the regulations made thereunder—that the entry papers outwards are false and fraudulent; that the alleged consignee is fictitious, and that it is not intended that the liquors should be delivered at San Blas, the port of destination, but rather that the same should be made available elsewhere to rum runners or bootleggers for consumption in the western States. We have, however, decided to make no disposition of, or report on this branch of the case until the consignors have had ample opportunity of producing the alleged consignee and making full defence. Though represented by counsel, the consignors have not requested this privilege, but we offer it to them. Any such defence will be entertained at Vancouver at any time within ten days from this date. After that time we will consider it our duty to make a finding and further report on this phase of the matter.”

As this finding fully expresses our opinions, we recommend that the officer in charge of customs at Victoria be instructed to refuse a clearance to this boat with its present cargo of liquors unless and until a bond is furnished in accordance with section 101 of the Customs Act in double the duties of importation on such liquors, as security that the same shall be actually exported to San Blas, or to such other foreign port as may be named.

As indicated in the aforesaid finding we purpose hearing further evidence in connection with certain features of this transaction, and will, at a later date, make a further and final report on same. All of which we respectfully submit.

Dated at Vancouver this 3rd day of December, 1926.

J. T. BROWN (*Chairman*),
W. H. WRIGHT,
ERNEST ROY,
Commissioners.

INTERIM REPORT No. 2

To His Excellency the Governor General in Council:

Your commissioners appointed to investigate the administration of the Department of Customs and Excise beg leave to make the following report:—

On the 3rd day of December instant we made an interim report dealing with the case of the boat *Chris Moeller*, and stating therein that we would later make a further and final report in connection therewith.

Upon a full consideration of all the evidence adduced, and after hearing counsel, we are convinced that the attempted shipment of this cargo of liquors is in disregard of the express provisions of the Customs Act and of the regulations made thereunder; that the entry papers outward are false and fraudulent; that the alleged consignee is fictitious and that it is not intended that the liquors should be delivered at San Blas, the port of destination, but rather that the same should be delivered elsewhere to rum runners or bootleggers for consumption either in the Western States or in Western Canada, or in both.

We desire further to state that the evidence adduced before us shows that the case of the *Chris Moeller* serves as a typical illustration of what is and has been the practice at the ports of Vancouver and Victoria in connection with all so-called shipments of liquors in transitu. These liquors are kept at these ports for varying periods, sometimes as long as eight months, awaiting the convenience of the owner in finding a purchaser, or in financing the cargo. There is no attempt at shipping the liquors to the port of destination designated in the bill of lading, nor any intention of doing so. The evidence indicates that these shipments of foreign manufactured liquors are made in this way primarily in order to escape the necessity of furnishing a bond for delivery, as is required in the case of domestic liquors shipped ex-warehouse.

In view of the aforesaid findings, and after giving full consideration to the argument of counsel, we are confirmed in our opinion that the customs collector should be instructed to refuse a clearance to the boat *Chris Moeller* with its present cargo of liquors, unless and until a bond is furnished in accordance with section 101 of the Customs Act in double the duties of importation on such liquors as security that the same shall be actually exported to San Blas or to such other foreign port as may be named.

The main parties interested in connection with this shipment, who have given evidence before us, are: J. A. Nosentoff, R. M. Morgan, J. L. Stewart, and Thomas J. Fay, and in view of the nature of their evidence we have considered it our duty to transmit the same to the Attorney-General of British Columbia, in order that criminal proceedings might be instituted in respect thereof, should he deem it advisable.

Dated at Vancouver, this 17th day of December, 1926.

J. T. BROWN (*Chairman*),
W. H. WRIGHT,
ERNEST ROY,

Commissioners.

INTERIM REPORT No. 3

To His Excellency the Governor General in Council:

We your commissioners beg to report that we have completed the taking of evidence in respect of the matters in the province of British Columbia within the scope of the inquiry, with the exception of the evidence of certain witnesses whose attendance was not available, but who may be called at a later stage of the inquiry. In view of the urgency of some of the matters disclosed in the evidence we feel it is desirable to make an interim report and certain recommendations, so that, if thought desirable or expedient, legislation or departmental action may be taken to remedy any abuses or irregularities. And with that object in view this report is submitted.

STAFF

We beg to further report that we have investigated the staff at the ports of Victoria and Vancouver and New Westminster as to efficiency and strength, and as to the general administration of the Customs and Excise at these ports. The evidence is convincing that at these ports some changes are necessary.

As regards the port of Vancouver the commissioners recognize that this port is a most important one, ranking third in the Dominion of Canada in the value of its imports, and owing to its very extensive rail and seaborne traffic, particularly with the Orient, presents problems that are peculiar to this port. The business of the Customs Department at this port has increased very rapidly, and the organization has not kept pace with such increase. For these reasons, and by reason of the probable rapid increase in the business of this port in the immediate future, we believe that there should be a complete reorganization of the staff. The position of collector at this port demands the services of a thoroughly competent and experienced official of outstanding executive ability. The preventive staff at the ports mentioned appears to be thoroughly efficient, but is undermanned. We would recommend that an increase in the preventive staff should be made at an early date.

TEMPORARY GUARDS

From the evidence we are satisfied a more effective system of appointing temporary guards for the examination of vessels from the Orient should be introduced at once, as the evidence discloses persistent organized attempts to smuggle narcotics into Canada. Complaints have been made that the present arrangement for providing extra guards when traffic is heavy is cumbersome, causing great delay and resultant inefficiency. In our opinion these defects should be remedied at once by allowing the head of the preventive staffs at these ports to engage temporary guards, so that they may be available for any emergency as soon as it arises.

BOUNDARY PATROL

With regard to the system of patrol now in effect on the international boundary between British Columbia and the United States, we are of the opinion that it is entirely deficient, both in point of numbers and efficiency. There are many roads leading to the United States that are practically left unguarded, and the evidence discloses that a large number of motor vehicles cross the international boundary into Canada and fail to report both inwards and outwards to the

customs houses stationed at or near the boundary. An efficient patrol would remedy this situation, and the officers should be provided with motor-cycles or motor cars. We deem this of importance, as the evidence presented to us disclosed that up to the present time there have been great opportunities afforded to those so inclined to smuggle goods into Canada from the United States without detection or prevention, and this we believe could be largely remedied by organizing and maintaining a proper system of patrol.

PATROL BOATS

We also deem it necessary and urgent that two boats should be placed at the disposal of the Preventive Service, one sea-going boat for the west coast of Vancouver island of sufficient power and seaworthiness to cope with the situation there existing, while another speed boat should be made available for the service in the straits of Georgia, and the adjacent waters.

COMMERCIAL SMUGGLING

We have made extensive inquiries as to the prevalence of smuggling on a commercial basis in the province of British Columbia, and in order to make an exhaustive inquiry we invited the co-operation of the Boards of Trade and similar organizations in our inquiries, but full inquiry has failed to disclose any commercial smuggling on a large scale, although as already indicated there is no sufficient patrol system to detect or prevent any such smuggling if it did exist.

UNDERVALUATION AND WRONG CLASSIFICATION

Evidence was presented showing cases of under-valuation and wrong classification with reference to imports, and other irregularities as to customs entries, but as we expect to have evidence respecting similar conditions in other parts of Canada we defer making any recommendation until the evidence is complete.

IN TRANSITU SHIPMENTS OF LIQUOR

In Interim Reports Nos. 1 and 2 we submitted findings and recommendations with reference to a certain cargo of liquors shipped in transitu, and since that report we have taken evidence of other shipments of a like nature. During the past four years enormous quantities of liquor have been shipped in transitu or ex-warehouse from the ports of Vancouver and Victoria. On these shipments no duty was paid and the traffic has been carried on by means of fictitious consignees, clearances on false declarations as to destination, false return clearances, and false landing certificates. We find in respect of these in transitu shipments, that they were not real or bona fide within the meaning of section 101 of the Customs Act, and should not be entitled to the benefit of the exemption contained in the proviso to that section. In a large number of the cases the goods so shipped were allowed to remain in the sufferance warehouses for an extended period, in order that the shippers or consignees might find purchasers for the same in the United States and the facilities afforded by the Customs Department in the establishment of sufferance warehouses were abused and improperly used. We are of opinion that the last proviso in section 101 of the Customs Act should be repealed. In our opinion no legitimate industry or business would be injured or imperilled by such repeal, but on the contrary this method extensively adopted, of smuggling of liquor into the United States would be frustrated or rendered more difficult.

COASTWISE SHIPMENTS OF LIQUORS

In reference to the coastwise shipments of liquor our investigation has disclosed that these are carried on in a manner that constitutes an abuse of the coasting laws. Liquors billed for export have been shipped from one port in British Columbia to another place in British Columbia where there is no customs port, usually some island in the straits of Georgia, but within the jurisdiction of another port, and these have finally been smuggled into the United States or in some instances have been illegally disposed of in British Columbia. It has been suggested that this condition would be remedied by refusing clearances for such shipments, unless cleared for a place where this is a customs port.

LANDING CERTIFICATES AND BONDS

We are also of opinion that when liquors are cleared for export under bond, greater precautions should be taken to see that real and bona fide landing certificates are furnished within a reasonable time and in default of such being done we recommend that the bond be rigidly enforced without undue delay.

OPERATION OF TREATY

With respect to such in transitu, ex-warehouse and coastwise shipments of liquor, we are of opinion that the declared intention of the treaty with the United States has been in large measure frustrated, and that if the amendments, changes and practice recommended in this report are given effect to, the operation of the treaty will be facilitated to a very great extent. As the operation of this treaty has been committed to us for inquiry and report, we believe it opportune to report on this phase of it forthwith. There are other phases connected with the operation of the treaty on which we have heard evidence, but we are not prepared to report thereon at present, as we expect to take further evidence concerning same.

BONDS OUTSTANDING

We find that the following bonds given by shippers of liquors in transitu or ex-warehouse conditioned on the procuring of landing certificates are still outstanding, namely, Uncancelled Excise Bonds:—

Exporter—Vancouver Breweries Limited, amount.....	\$4,050 00
Vancouver Breweries Limited, amount.....	1,512 00
Vancouver Breweries Limited, amount.....	175 50
Total	<u>\$5,737 50</u>

Uncancelled Bonds covering exports of liquor ex-warehouse:—

Guarantee Company	Bond No.	Amount
Fidelity Insurance Company of Canada.....	470156	\$ 3,707 00
	24	
Dominion Gresham Guarantee and Casualty Company.	81621	7,195 00
Canadian Surety Company.....	96772	8,818 00
Canadian Surety Company.....	96773	3,740 00
Canadian Surety Company.....	96774	3,801 00
Canadian Surety Company.....	96771	7,799 00
Fidelity Insurance Company of Canada.....	470321	10,000 00
	26	
Total		<u>\$45,060 00</u>

The evidence discloses and establishes the fact that these shipments of liquor were not in fact landed at their named destination, although by the medium of the false and fraudulent landing certificates presented to the collectors

at the ports of Victoria and Vancouver respectively, it was sought to have these bonds released; and we recommend that immediate action should be taken to enforce payment of these bonds.

DESTROYED RECORDS AND UNVOUCHERED EXPENDITURES

Our investigation has been hampered by reason of the failure on the part of at least one Brewing Company and the principal export companies dealt with and holding licenses under the Customs Act, to keep and preserve proper books of account, records, and vouchers. In some cases such records as were kept were destroyed, so that the auditors of the commission were unable to make a proper investigation and presentation of the financial aspects of the matters under inquiry. This conduct on the part of these companies has also prevented a complete investigation of all questions relating to the sales tax, gallonage tax, and income tax, for which these companies were or might be liable. Notwithstanding these hindrances the investigation indicates that there is due by breweries and distilleries in British Columbia for sales tax and gallonage tax, upon the rulings of the department, a sum of approximately \$256,644.70. In addition to this there is a very substantial liability for Income Taxes, due principally from export companies, but the exact figures can be ascertained only after examination by the Income Tax Department. In the case of one liquor exporting company alone there was practically \$990,000 of unvouchered expenditures, and it was impossible to find any official of the company who could or would give a satisfactory explanation of these items.

We call the attention of the Customs Department to this condition of affairs, as in our opinion it requires a remedy by means of customs regulations.

As already stated we present this as an Interim Report on the matters pressing for immediate attention and solution, and although evidence has been taken in respect of many other matters, they are not of so urgent a nature as to require an immediate report thereon.

All of which is respectfully submitted.

J. T. BROWN (*Chairman*),
W. H. WRIGHT,
ERNEST ROY,

Commissioners.

Dated January 29, 1927.

INTERIM REPORT No. 4

To His Excellency the Governor General in Council:

Your commissioners have completed sittings in the four western provinces. There exists in each of these provinces at the present time a system of Government sale and control of intoxicating liquors for beverage purposes. While the legislation in each province is slightly different from that of the others, it is in principle and in its objects the same. These provinces have requested us to recommend certain amending legislation by the Dominion which will enable them to better control the sale and disposal of intoxicating liquors within the province, and which will tend to curtail the activities of the bootlegger, rum runner, and others disposed to carry on similar illegal operations. The matter falls within the scope of our inquiry, because the legislation asked for, will, in our opinion, better protect the revenues of the country and enable the Dominion to more efficiently carry out its treaty obligations with the United States in respect to smuggling.

I.

At a time when the provinces of Manitoba, Saskatchewan and Alberta prohibited the sale of intoxicating liquors within the province for beverage purposes, they each took advantage of the provisions contained in Part IV of the Canada Temperance Act for prohibiting the importation into the province and the exportation out of the province of intoxicating liquors to the extent set out in said provisions. Since that time these provinces have each adopted a system of Government sale and control of intoxicating liquors. In view of this change in legislation grave doubts are expressed as to whether or not the prohibitory provisions of the Canada Temperance Act with reference to the importation and exportation of liquors are still in force in these provinces.

The Court of Appeal in Alberta, consisting of five judges, had the question before it in the case of *Rex vs. Naden* (1925) 1 D.L.R. 429, and by a majority of one held that the prohibitory legislation was still in force. We believe it important that all such doubts should be removed by legislation amending the Canada Temperance Act so as to provide for the continuance of such prohibition, notwithstanding the change in the legislation referred to. The experience of these provinces during the period when export liquor houses were permitted to operate within such provinces was of such a character that any return, even temporarily, to such a condition, is most undesirable.

II.

The prohibitory provisions of the Canada Temperance Act above referred to, as to the importation and exportation of intoxicating liquors, have never been applied to the province of British Columbia. That province has at present in operation a system of Government sale of intoxicating liquors for beverage purposes, and consequently cannot take advantage of Part IV of the Canada Temperance Act, as its provisions do not apply to such conditions. It is the earnest wish of the Government of the province of British Columbia, as expressed by its Attorney-General and we recommend, that amendments be made to the Canada Temperance Act so as to enable that province, and any

province with similar liquor legislation, to apply for and secure the advantages of the prohibitory legislation referred to. It has been stated to us by the Attorney-General of British Columbia that the province of Quebec, in addition to the provinces of Manitoba, Saskatchewan and Alberta, associates itself with the province of British Columbia in making such request. The application made by the province of British Columbia is set out in detail in pages 890 to 957 inclusive, and more especially in pages 938 to 943 inclusive, of the evidence.

III.

In the case of the provinces where there is in force a system of Government sale of liquors, in order that they may better control that sale, the province of Saskatchewan has requested, and we recommend, that section 154 of the Canada Temperance Act be amended so as to make the prohibitory provisions apply to importations for medicinal, manufacturing and commercial purposes. The application made by the province of Saskatchewan in this regard is set out in detail in pages 8334-5 of the evidence.

IV.

The province of Manitoba through its Attorney-General has presented to us a condition of affairs which appears to require an amendment to what is known as the Doherty Act, and an amendment to the Inland Revenue Act. By section 2 of the Doherty Act it is provided as follows:—

“In addition to any other penalties prescribed for a violation of section one of this Act, any person holding a license to carry on the business or trade of a distiller or brewer, issued under the provisions of the Inland Revenue Act, who violates the provisions of section one of this Act, or who sells or delivers intoxicating liquor in violation of the law in force in any province, shall also be liable in any prosecution under this Act, or under such provincial law, on conviction for a third offence, to forfeit his license and shall thereafter be unable to hold such a license.”

Until December, 1922, it appears to have been the policy of the department to cancel a brewer's or distiller's license when there were registered against the brewer or distiller three convictions, regardless of whether the convictions were for violations of the Doherty Act, or for violations of the provincial Liquor Act. Since December, 1922, the department appears to have taken the view that the justice of the peace, or magistrate who convicts for the third time, must cancel the license, this being an additional penalty. In answering the submission of the Attorney-General of Manitoba, certain breweries, through their counsel contended that the third conviction referred to in section 2 of the Doherty Act must be charged and proved as such before the justice or Magistrate could cancel the license, if at all. It was also submitted to us on behalf of the brewers, and with much force, that the cancellation of a license is too great a power to be conferred on a justice or magistrate. We consider it important that the difficulties that have arisen as to the question of forfeiture of license should not be allowed to continue, and that the law and the policy of the department on the matter should be clarified so as to insure prompt and decisive action. Where the management of a brewery or distillery persists in violating the law, whether it be Dominion or provincial, it would seem the part of wisdom in the public interest to both cancel the license and refuse renewal.

Section 15 of the Inland Revenue Act provides that, “The minister may for any reason which he deems sufficient in the public interest refuse to issue any license authorized by this Act.”

This section could be amended so as to give the minister the power of forfeiture in addition to the power of refusal. As the department issues the license it would seem desirable that the department should also assume the responsibility of deciding when it should be forfeited, and when a renewal should be refused.

The provinces referred to have urged that the legislation asked for be passed at the present session of Parliament, and for that reason we have deemed it advisable to make an interim report thereon.

All of which is respectfully submitted.

J. T. BROWN (*Chairman*),
W. H. WRIGHT,
ERNEST ROY,
Commissioners.

March 21, 1927.

INTERIM REPORT No. 5

To His Excellency the Governor General in Council:

Your commissioners having opened their investigation in the province of Ontario. At the first sittings of our commission, the following facts have been disclosed in connection with the O'Keefe Beverage Company. On the 26th of October, 1926, the accountants, P. S. Ross & Sons, under instructions from the Department of Customs and Excise, presented themselves at the office of the above named company to make an examination of their books. Access to the books was refused to them. On the 10th of December, 1926, another attempt was made by one of the representatives of the accounting firm with no more success. On the 26th of December, 1926, the representative of the same accounting firm, accompanied by one of the customs officials of the Customs Department, came to the office of the brewery and then were admitted to make the examination of the books, but they soon made the discovery that all the books, vouchers, invoices that could give any information of the dealings of the company previous to September, 1926, were missing. Since that time these books and records have not been available, and the accountants have been unable to perform their investigation according to instructions received by them from the Department of Customs and Excise, and from our commission.

The explanation given to the commission by the officials of the brewery is, that on the 30th of October, 1926, after an interview between Mr. Kernahan, manager of the company, and the late Mr. Millar, president and counsel of the company, the books were removed from the office of the brewery in the absence of the employees of the company.

We have heard many officials of the company and none have given satisfactory explanations as to the disappearance and the disposition of these books and records, but we are convinced that the same were removed from the office of the company with the intent that they would not be available in case the Department of Customs and Excise or our commission should desire to examine them.

The evidence impresses your commissioners that the books are concealed purposely, and their whereabouts are known to the officials of the company and can be produced by them if they are so minded.

This action of the Brewery Company is in contravention of the War Tax Act and the Excise Act, which provide that the books of such a company should be kept and remain available for examination for the Department of Customs and Excise for a period of at least two years.

We think it our duty to recommend that the license of the O'Keefe Beverage Company Limited, for the next year be refused and withheld until the said company have produced the books and records referred to, or produced satisfactory evidence to your commission or the Department of Customs and Excise as to its inability to produce same.

All of which is respectfully submitted.

J. T. BROWN (*Chairman*),
W. H. WRIGHT,
ERNEST ROY,
Commissioners.

Toronto, March 23, 1927.

INTERIM REPORT No. 6

To His Excellency the Governor General in Council:

On the 23rd March, 1927, your commissioners made Interim Report No. 5, recommending, for reasons therein stated, the withholding of a license from O'Keefe's Beverages Limited.

To-day an agreement settling all claims of the Government against this company in respect of gallonage and sales taxes has been filed with us as follows:—

"The amount due by O'Keefe's Beverages Limited to the Government of Canada in respect of gallonage and sales taxes up to April thirtieth, 1927, is hereby fixed at the sum of three hundred and twenty thousand dollars (\$320,000). The said sum shall be paid as follows:—

"One hundred and fifty thousand dollars (\$150,000) cash on the signing of this memorandum; fifty thousand dollars (\$50,000) on the fifteenth day of June instant; twenty-five thousand dollars (\$25,000) on the fifteenth days of July, August, and September next, and the balance on the fifteenth day of October next.

"The above payments shall be accepted by the Government in full of all claims against O'Keefe's Beverages Limited up to the thirtieth day of April, 1927, in respect of gallonage and sales taxes as aforesaid, and the pending action shall not be further proceeded with."

This settlement in our opinion fully protects the Government's interests, and the reasons for withholding the said license no longer exist.

All of which is respectfully submitted.

J. T. BROWN (*Chairman*),
W. H. WRIGHT,
ERNEST ROY,

Commissioners.

MONTREAL, June 6, 1927.

INTERIM REPORT No. 7

Re E. N. TODD

To His Excellency the Governor General in Council:

Your commissioners have investigated a charge against one E. N. Todd, of Montreal, of conspiring with others to defraud the Government of excise duty on some twelve drums of alcohol.

The evidence indicates that in or about the month of October, 1924, one W. C. Duncan, at the instigation and for the benefit of Todd and another, purchased from the Consolidated Distillers Limited, of Corbyville, Ont., twelve drums of alcohol for delivery at St. John's, Newfoundland.

The alcohol was shipped by the Consolidated Distillers Limited to their own order for delivery at St. John's, and was routed by rail to Montreal, and from there by Canadian Government Merchant Marine to destination.

While the alcohol was being transferred from rail to boat at Montreal the seals on the drums were broken, the alcohol extracted, and water substituted therefor. The drums were cleverly resealed and shipped with water contents to St. John's, and it was only after arrival there that the fraud was discovered.

Duncan's evidence implicates Todd as the instigator and chief benefactor of these fraudulent transactions, and, although Todd contradicts Duncan and characterizes the charge as blackmail, Duncan's evidence impresses us as being substantially correct, corroborated as it is by other material and independent evidence, both of *viva voce* and documentary character.

The excise duty on the alcohol so shipped would amount to \$7,524.25. The Consolidated Distillers Limited entered into a bond in double the amount of the duty for delivery at destination, and this bond is still outstanding.

We recommend that appropriate action be taken to recover the amount of the duty, and that Todd be prosecuted on the charge of conspiring to defraud the Government, or on such other charge as may seem appropriate.

The evidence bearing on this case appears at pages 765 to 862; 18,975 to 19,021; 19,510 to 19,521, all inclusive, and the argument of counsel at pages 19,710 to 19,739, both inclusive.

We consider this case one that requires prompt action and in consequence make our report thereon at this time.

All of which is respectfully submitted.

J. T. BROWN (*Chairman*),
W. H. WRIGHT,
ERNEST ROY,

Commissioners.

MONTREAL, June 14, 1927.

INTERIM REPORT No. 8

Re REGINA VINEGAR COMPANY, LIMITED

To His Excellency the Governor General in Council:

Your commissioners have investigated the operations of the Regina Vinegar Company, Limited, of Regina, Saskatchewan, and beg to report thereon as follows:—

In the month of October, 1923, the Regina Vinegar Company, Limited, made application for a bonded vinegar manufacturing license for their plant at Regina, Saskatchewan, and furnished the bond of the General Accident Assurance Company in the sum of five thousand dollars, as security for the proper conduct of their business. The license was granted in the early part of 1924.

The evidence shows that during the period from June, 1924, until June, 1926, being practically the whole period of active operations of this company, Z. Natanson and S. Diamond, two well-known bootleggers, were its actual owners and managers.

In 1926 S. Diamond purchased Natanson's interest in the company and thus became practically the sole proprietor. In the fall of 1926 S. Diamond transferred his interest to the present owner, his brother, J. Diamond. The company has not been granted a renewal of their license since the last change of ownership above referred to, but their counsel has indicated to us that the company is now desirous of securing such renewal.

During the period of the company's operations some four thousand gallons of alcohol were fraudulently and illegally removed from the company's bond by the management of the company. This alcohol did not go into the vinegar mix, but was taken from the company's premises and used elsewhere, apparently in the bootlegging business. On the alcohol thus fraudulently removed the company paid excise duty at 27 cents per gallon only, on the basis of it being used in vinegar production, whereas the duty properly payable, when not so used, would be \$9 per gallon, and thus the Crown was defrauded out of revenue to the extent of \$34,920 or thereabouts.

During the investigation into the operations of this company, the company was represented by counsel, but the present owner, J. Diamond, did not give evidence or appear in person to answer any of the matters referred to, or to show the circumstances under which he secured the interest of his brother S. Diamond in the company.

There was evidence before us which indicated that one A. L. Ritchie, an excise officer, was implicated in the fraudulent transactions referred to. Mr. Ritchie denied having any connection with such transactions, and while the circumstances were such as to excite grave suspicion against this officer, yet we do not consider the evidence sufficiently clear or conclusive to justify a finding that the charge has been established. There is no suggestion that any other official was in any way involved in the matter.

We recommend,—

- (1) That appropriate action be taken to recover the amount by which the revenues have been thus defrauded;
- (2) That no renewal license be granted to this company until the amount due the Crown as above indicated is paid;

- (3) That no renewal license be granted for the premises unless and until the Department of National Revenue is satisfied that the applicants are fit and proper persons to have such license, and have put up ample security for the proper conduct of the business.

The evidence given in connection with this matter is to be found at pages 8,727 to 9,028, 9,279 to 9,457, 9,676 and 9,677; and the argument of counsel at pages 11,442 to 11,471.

As the department have expressed a desire through counsel for the commission to have an early report on this matter, we are acting accordingly.

All of which is respectfully submitted.

J. T. BROWN (*Chairman*),
W. H. WRIGHT,
ERNEST ROY,
Commissioners.

HALIFAX, July 4, 1927.

INTERIM REPORT No. 9

SPECIAL REPORT ON CUSTOMS PORTS

To His Excellency the Governor General in Council:

We, your commissioners, appointed to investigate the administration of the Department of Customs and Excise, beg leave to report as follows:—

Under the resolution of the House of Commons passed on the 5th day of February, 1926, the special committee of the House thereby appointed were charged among other duties with investigating the administration of the Department of Excise and Customs, the efficiency thereof and other duties of a like nature.

The report of such special committee was adopted on the 18th June, 1926, and among other things the committee recommended that the conduct of the officers at the port of Windsor, Ont., and other important ports should be further investigated, and that the services of such of them as are found guilty of evasion of duty should be dispensed with. (See paragraph 14 of report.)

The various Orders in Council appointing your commissioners and their predecessor authorized and empowered this commission to continue and complete the investigation entered upon by the special committee of the House of Commons, and to inquire into and report upon all matters affecting the administration of the Department of Customs and Excise, now the Department of National Revenue.

The commissioners have interpreted the above report and Orders in Council as an instruction to them to investigate the administration of the Department of National Revenue in the city of Windsor, in the province of Ontario, and certain other important ports, and have acted accordingly. We now beg to report our findings in respect of the ports which in our opinion require special attention.

PORT OF WINDSOR, ONTARIO

This port has under its jurisdiction the outports of Walkerville, Sandwich and Belle River. We do not think that there is any justification for continuing the outport of Belle River, and it is problematical as to whether the outport of Sandwich should be continued. The revenue derived from these offices does not appear to justify their continuance. They are so accessible to the port of Windsor and outport of Walkerville that their discontinuance would not seriously inconvenience the public.

The collector at Windsor has apparently exercised no supervision over the outport of Belle River, apparently considering it was not his duty.

The administration of the Department of National Revenue at the port of Windsor presents many varying and complex problems. Its proximity to the United States and the large traffic to and from that country makes the duties of the officials at that port most arduous and important. In addition to that, the trade in exporting liquors to the United States appears to be largely centralized at this port and its outports. Owing to the different regulations of the department respecting such shipment and the duty devolving upon the officials under the treaty with the United States, the difficulties of the officials at this port are abnormal.

It is notorious that a large number of the persons engaged in smuggling liquor into the United States are not of the law-abiding character, so that constant vigilance is required on the part of officers to enforce compliance with the customs regulations.

After a careful and somewhat exhaustive inquiry into conditions at this port, we have come to the conclusion that a thorough reorganization of the staff at the port is desirable.

The present collector appears to be thoroughly honest and conscientious in the discharge of his duties. No charge of irregularities or misconduct on his part was made against him; but in our opinion he is not possessed of sufficient capacity to have charge of a port presenting so many difficulties. We are of opinion, therefore, that there should be a change made in the collectorship, and that the present holder of that position should be transferred to some other port which he could capably administer.

The next official in point of standing is the surveyor. The present occupant had at the time of our inquiry been recently promoted to that position. It appears the first customs experience he had was in 1919, and since that time he was stationed principally at the railway station or at the ferry docks, and was promoted to the post of surveyor about the beginning of December, 1926. From his own evidence and the evidence of his subordinates, we have arrived at the conclusion that a change is desirable. As surveyor, it is his duty to have charge of the outside service, but he does not appear to have a proper appreciation of his duties in that respect, nor the capacity to perform the same efficiently. His post is a most important one, particularly so in a port like Windsor where a very large part of the work is connected with the outside service.

The examining officers are in general attentive to their duties, but some of them do their work in a very perfunctory manner, in marked contrast to officers performing similar duties at other ports. This is particularly so with reference to the officers acting at the ferries, as the evidence indicates that a great deal of smuggling and much undervaluation has been carried on at this port.

PORT OF TORONTO, ONTARIO

This is one of the largest and most important ports in the Dominion, ranking second among all the ports in point of revenue and volume of business done in connection with the Department of National Revenue.

Our inquiry into the administration of this port revealed a very unsatisfactory condition of affairs. It was urged by some of the officials that the disorganized condition was due to the lack of proper facilities in the form of a customs house, but we are convinced that that is only a minor factor in producing the present situation. The collector does not appear to have the situation in hand, and is not sufficiently in touch with the different branches of the service.

The work of the outside appraiser at this port also calls for notice. His method of examination of carload lots for the purpose of appraisal is very superficial and unsatisfactory, and as this work comprises a very large volume of business the present method of appraisal must necessarily result in great loss to the revenue. The present officer has been in charge of the outside division for three years, and before that time held the position of examining officer. His training and qualifications are not such as to fit him for the post he now occupies. It also appears that the selection of the packages for examination where the same are not numbered is left to a carter who may

not have the slightest knowledge of what the packages contain. This procedure deprives the appraisers of any reasonable opportunity to make a proper examination and appraisal of the goods.

This officer admitted that his appraisal was largely based upon the invoice of the goods. It may be that he would be qualified to fill some other post, but our conclusion is that he is not qualified for his present position.

We also think that the chief appraiser was lacking in qualifications for his important office. The evidence of the present occupant and of the other witnesses showed that he exercised very little supervision over the other appraisers and did not, as his duty required, give them proper instructions in the performance of their work.

We have selected from among the chief officers of the port the cases that deserve consideration. As the positions occupied by these officials are of a supervisory character, the effect upon the entire organization is not at all beneficial, and in the interests of efficiency a change in these positions is desirable.

PORT OF REGINA, SASKATCHEWAN

Regina is the most important port in Saskatchewan, and next to Winnipeg, judged by the volume of imports, the most important port in the three Prairie Provinces. There has in recent years been a very rapid increase in the amount of business conducted by this port, the revenues collected having more than doubled during a period of seven years preceding March 31, 1926.

While the port presents no special or difficult problems, the increase in business has meant increased work and increased responsibility. With this increase of work there has been no corresponding increase in the staff of the port during the period referred to, and the port at the present time is considerably undermanned. The total staff consists of twenty-four members including the collector, and there have been several vacancies for the last two or three years, so that even the comparatively small number referred to has been considerably depleted. There is only one appraiser at the port, whereas the evidence indicates clearly that an increase is required.

Our judgment is that this port requires a thorough reorganization. The inquiry into the port impresses us with the view that the collector has not a sufficient grasp of the situation, nor does he give it effective supervision. The work and responsibility of supervision seems to have largely rested with the chief clerk.

We call attention to the fact that it was in this port and its subport of Yorkton that several companies whose activities are reported on elsewhere carried on their business enterprises during comparatively recent years. We refer to the Canada Drug Company, the Yorkton Distributors, the Prairie Drug Company, the Regina Wine and Spirits, Dominion Distributors, and the Regina Vinegar Company. All of these companies appear to have conducted their business in persistent and open contravention of the laws and regulations governing excise, and even the most casual observer could not have failed to detect the irregularities. These companies were owned and controlled by the Bronfmans, the Chechiks, the Natansons, the Diamonds and Rabinovitch, and yet they were seriously expected to carry on a bona fide "drug" and "vinegar" business. That such a condition of affairs could have existed at all, let alone have continued for several years, shows not only a lack of intelligent and efficient supervision on the part of the collector of the port but serves to demonstrate a breakdown in proper and efficient supervision on the part of the department as a whole.

The sub-collector at Yorkton was alarmed at the situation in his sub-port brought about by the activities of some of these companies, and although he called the attention of the collector at Regina to the difficulties and dangers with which he was faced, he seemed to get very little helpful or sympathetic consideration.

We also call attention to the fact that in this port, as apparently was the case in some other ports, there prevailed a practice which constituted an abuse of the moiety system of granting an award to a seizing officer. It appears that the seizing officer in this port invariably shared his award with the collector and his chief clerk. This was so much a custom of the port that it virtually amounted to a rule which no seizing officer would consider it wise to depart from. The reason given for the practice was that it had prevailed for a great many years and was in vogue when the collector and the chief clerk took office. Even though such practice prevailed to the extent mentioned, we would have expected superior officers to see its impropriety and to have discouraged it rather than to have continued and participated in it.

Reviewing the conditions of the port, we again call attention to the fact that it has been undermanned for some time and point this out as an extenuating circumstance in connection with the lack of proper and efficient supervision on the part of the collector.

We also call attention to the fact that the port has not had proper and efficient inspection, the post of inspector for the district having been vacant for some time.

The inevitable result of the present condition of affairs must be inefficiency and consequent loss to the revenues.

In the interests of efficiency, the port should be reorganized. The staff should be strengthened, sufficient, capable appraisers appointed, and a capable, energetic and efficient officer appointed to the position of collector. It is also important that the position of inspector for the district should be promptly filled by a capable and efficient officer.

We have already in Interim Report No. 3, dealt with the necessity for a thorough reorganization of the port of Vancouver, and simply wish to confirm our opinion as expressed in that report.

All of which is respectfully submitted,

J. T. BROWN (*Chairman*),
W. H. WRIGHT,
ERNEST ROY,
Commissioners.

OTTAWA, October 11, 1927.

INTERIM REPORT No. 10

To His Excellency the Governor General in Council:

Your commissioners appointed to investigate the administration of the Department of Customs and Excise beg leave to report in the following pages upon a large number of companies and individuals whose activities have been the subject of inquiry and which appear to us to merit some attention.

We have also investigated many other cases in respect to which evidence was submitted to us, but after due consideration of same we have concluded that the evidence did not disclose anything of sufficient importance as to require a report thereon.

G. OERTLY

The above-named party is a manufacturer's agent in the city of Toronto. He is the Canadian agent for Edwin Naef, Incorporated, of Zurich, Switzerland, and imports from that company large quantities of silks. Mr. Oertly takes orders from various firms in Toronto and Montreal and transmits these orders to his principals in Switzerland who ship the goods to Canada, the bills of lading and invoices for clearing through customs being sent to Mr. Oertly. The invoices are made out to the company buying the goods but the prices shown as the selling prices to purchasers in Canada and the fair market value for home consumption in Switzerland at the time of shipment vary very greatly from the selling prices which the purchasers subsequently pay for the goods.

The goods are cleared through customs in the names of the various purchasers whose powers of attorney Mr. Oertly holds, but such invoices are not forwarded to the firms to whom they are addressed. Instead Mr. Oertly makes out separate invoices on his own billhead at much higher prices. As an illustration, goods were invoiced and passed customs at a value of \$729 and were then billed to the purchasing firm at \$1,151.48. Mr. Oertly informed our auditors that he did not know the provisions of section 43, subsection 2, of the Customs Act, which reads as follows:—

"In the case of goods shipped to Canada on consignment, but sold by the exporter to persons in Canada prior to their importation into Canada, the amount of the valuation for duty shall not be less than the invoice value to Canadian purchaser, exclusive of all charges upon the goods, after shipment from the place whence exported directly into Canada."

As the importations made in this way appear to have been very extensive, and as there appears to be a considerable loss to the revenue in consequence, we recommend as follows:—

RECOMMENDATION

That a thorough investigation be made and to the extent that there has been undervaluation and evasion of duty, that action be taken to recover the full amount owing, including penalties, if any.

WITNESSES

G. Oertly, Volume XVI, Toronto, page 15,045 *et seq.*

G. Oertly, Volume XVI, Toronto, page 15,058 *et seq.*

G. Oertly, Volume IVa, Ottawa, page 22,911 *et seq.*

A. E. Nash, Volume XVI, Toronto, page 15,085 *et seq.*

EXHIBITS Nos. 622 and 600.

S. ROSENTHAL LIMITED

This company is now in liquidation. It has until quite recently carried on business in Montreal and in connection with that business imported large quantities of goods from the United States in the form of automobile accessories. Samuel Rosenthal, who was associated with his brothers in the company, appears to have been the principal proprietor and the one most active in the business.

This company appears to have made it a practice to pass its goods at customs at an undervaluation and on an invoice made out by the company itself, to which the name of the exporter was subscribed, and sworn to be the original invoice. This method of defrauding the Government was apparently carried on either by or at the instigation of Samuel Rosenthal. During the short period covered by investigating officers, the value of the goods imported was \$8,953.62 and these were entered at Customs at \$4,263.72, or in other words, they were passed at customs at practically one-half of their true value.

In July, 1926, a seizure was made of goods so imported by this company and at the time of our investigation in June, 1927, the seizure had not yet been disposed of.

RECOMMENDATION

That a further investigation be made to ascertain the extent to which the Crown has been defrauded of its revenues by these transactions and that action be taken to recover the amount of the losses, and that all proper penalties be imposed; that Samuel Rosenthal and any other parties that appear to have participated in the frauds be prosecuted.

WITNESSES

F. Norris, Volume VIII, Montreal, page 19,773.

T. B. Hurson, Volume VIII, Montreal, page 19,776.

S. Rosenthal, Volume IX, Montreal, page 20,015.

WINDSOR ELECTRIC SUPPLY COMPANY LIMITED

This is an incorporated company carrying on a retail and wholesale business in electric fixtures, supplies and appliances, at the city of Windsor, in the province of Ontario. In the course of its business, it imports large quantities of goods from the United States.

Inspector Jacques of the Preventive Service made an investigation into the importations made by this company and discovered many irregularities and offences committed by this company in connection with the entries made at the Customs office in Windsor.

The auditors of the commission examined the books and records of this company and found that there were numerous foreign invoices on file in its offices and no corresponding customs entry.

The evidence disclosed also that on many invoices of goods imported by this company appeared fictitious trade discounts and such invoices were presented to the Customs for the purpose of having the entries passed, and thus defrauding the revenue.

The evidence also established the invoices presented to Customs by this company regularly showed a 2 per cent cash discount, but when the cheques given in payment for these goods were examined it was found that the discount was not earned, and therefore the invoice as presented at the Customs was not the true invoice.

There was also evidence adduced before us to the effect that the invoices presented to customs did not correctly show the cost price of the goods included

therein, and that the said invoices were false in that particular. The president of the company, Paul Kamin, attempted to explain some of these irregularities, but his explanations were not at all satisfactory, and we could not accept them. The irregular practices of this company in connection with Customs entries have been so extensive and persistent that in our opinion this case calls for thorough investigation and the imposition of such penalties as are provided for by the Customs Act.

RECOMMENDATION

That action be taken to collect all duties owing by this company and all penalties provided for in such cases.

WITNESSES

W. A. Jacques, Volume IV, Windsor, page 15,807.

P. Kamin, Volume IV, Windsor, page 15,824.

J. G. Glassco, Volume V, Windsor, page 15,894.

R. P. Hall, Volume V, Windsor, page 15,901.

A. E. Nash, XII, Windsor, page 17,054.

EXHIBITS Nos. 660 and 733.

WINDSOR FLOWER SHOP

This firm has been carrying on the business of florists at Windsor, Ont., since 1914, being operated and owned by one Miss L. J. Bamford. Our investigation shows that this party imported large quantities of cut flowers from the Detroit-McCallum Company via Windsor-Detroit Ferry, and these flowers were entered at Customs at an undervaluation on a double invoice especially made out for customs purposes and not representing the real value of the goods. This practice has been persistent and has resulted in a considerable loss of revenue. By way of illustration, an invoice representing goods of the value of \$22.90 was entered at Customs at the value of \$5 and another invoice representing goods of the value of \$34.20 was entered at Customs at \$7.75. The evidence also indicates that this party has smuggled silk ribbons from Detroit to her shop at Windsor for commercial purposes.

The evidence in this case and in other cases of a similar nature at Windsor serves to indicate a practice carried on by certain Detroit firms of furnishing double invoices to Canadian customers and the use of same for the purpose of defrauding Customs. It also shows the lack of an effective examination and appraisal of goods passing the Customs by the port officers.

RECOMMENDATION

That a further investigation be made to ascertain the extent to which the revenues have been defrauded by undervaluation and smuggling, and that steps be taken to recover the proper duties and all appropriate penalties.

WITNESSES

L. J. Bamford, Volume IX, Windsor, page 16,595.

N. Cuff, Volume IX, Windsor, page 16,607.

A. E. Nash, Volume IX, Windsor, page 16,613.

EXHIBITS Nos. 691-A, B, C, D, and 693-A.

GAMMAGE & SONS LIMITED

Gammage & Sons Limited have their head office in London and a branch store in Windsor, Ont. They are engaged in the business of flowers as retailers, wholesalers and growers.

The company imports flowers, ferns, etc., from the United States and especially from Detroit for its stores at Windsor and London.

In October, 1926, it was discovered that in connection with the import of flowers from the United States through Detroit, the company used double invoices, the one presented to the Customs, and on which duty was paid, being for a much lower amount than the one mentioning the real sale price and forwarded to the company. The difference in some cases was over 50 per cent.

An investigation was made of some of the imports of the company before and after that period and it was found that double invoices were used regularly. The manager at the branch store in Windsor, as well as the manager at the head office in London, admitted knowledge of that practice and offered no excuse.

The evidence adduced shows that the American exporters of flowers to Canadian firms through Windsor usually follow the practice of furnishing double invoices.

RECOMMENDATION

That a thorough investigation of the imports of this company be made to ascertain the amount of duty payable and that proper action be taken to recover same with all appropriate penalties.

WITNESSES

G. Galbraith, Volume V, Windsor, page 15,901.

W. A. Jacques, Volume V, Windsor, page 15,908.

W. W. Gammage, Volume VIII, Windsor, page 16,487.

A. E. Nash, Volume IX, Windsor, page 16,613.

EXHIBITS No. 663-A and B, and 693-A.

THE L.C. FLOWER SHOP

This firm has carried on the business of retail florists at Windsor since March, 1925. One F. W. Lewis is the manager and sole proprietor. The firm in connection with its business imports considerable quantities of cut flowers from Detroit, Michigan. An investigation indicated that a persistent practice has been followed of importing goods so purchased at Detroit at undervaluation. A separate invoice has been made out for customs purposes and the goods have been passed at customs on such invoice, representing a value much lower than actual value.

This firm followed the practice which appears to have been carried on generally by Windsor flower shops in importing goods purchased from certain florist firms in Detroit. By way of illustration, goods of the value of \$54.60 were passed at customs at \$28.65 and goods valued at \$7.50 were passed at customs at a valuation of \$3.75.

RECOMMENDATIONS

(1) That further investigation be made into the activities of this firm with a view to ascertaining the loss of revenue;

(2) That action be taken to recover the proper duties and all appropriate penalties.

WITNESSES

F. W. Lewis, Volume IX, Windsor, page 16,609.

A. E. Nash, Volume IX, Windsor, page 16,613.

EXHIBITS No. 692-A and B, and 693-B.

E. W. MORRIS

This party carries on business as a florist at Walkerville, Ontario. In the course of his business he imported a quantity of cut flowers from the Michigan Cut Flower Exchange of Detroit, Michigan. The value of these importations from April, 1926, to March, 1927, being the period covered by the investigation, was \$2,575.86. The practice with reference to these importations was for the Detroit Company to deliver the flowers to the Walkerville Ferry Company, the ferry company transporting them to the Canadian side. Accompanying each parcel was a form of invoice representing a value much lower than the actual value or the actual price paid for the goods, and this was presented to Customs. The evidence indicates that the practice of undervaluation in this regard was persistent.

RECOMMENDATION

That further investigation be made into the activities of this importer, and that steps be taken to recover the proper duties and all appropriate penalties.

WITNESSES

A. E. Nash, Volume XVIII, Toronto, page 18,374.

EXHIBIT No. 805.

J. R. BEAL & SONS

This is a firm engaged in tombstone and monument business at Pembroke, Ont. From 1922 to 1926, it imported tombstones and monuments from Messrs. Alexander Nicol and Sons of Aberdeen, Scotland, to the value of \$7,924.65. It received invoices from that firm for this amount, but, at the same time, it also received from the firm, invoices for a lower amount to be used at the customs office. The difference between these two invoices amounts to \$1,358.54.

The interested parties admitted having received the double invoices but alleged, however, that it was the practice of the exporting company and not due to their own initiative.

The evidence disclosed also that some goods were imported and not mentioned in the invoices and, consequently, no duty was paid on such goods as no examination was made by the collector at Pembroke who, we may mention, is a relative of the importers.

The fact that no proper examination was made rendered impossible the detection of the double invoices.

RECOMMENDATION

That proper steps be taken for a thorough examination of the goods imported at Pembroke so as to detect the goods not mentioned on the invoices presented to the customs employees and also the undervaluation.

WITNESSES

C. B. Alexander, Volume XIV, Toronto, page 14,648.

C. Beal, Volume XV, Toronto, page 14,776.

J. G. Beal, Volume XV, Toronto, page 14,780.

E. Richards, Volume IIa, Ottawa, page 22,566.

EXHIBITS No. 593 to 597 inclusive.

S. H. RUTLEDGE (GRANITE)

Samuel H. Rutledge is a monument dealer at Orangeville, Ontario. From 1922 to 1925 he imported monuments and tombstones from Scotland which were bought from Alexander Nicol and Company, Aberdeen. The price was F.O.B. Aberdeen and in consequence the duty was to be borne by the importer as well as the freight and sales tax.

The exporter supplied the importer with two sets of invoices, one for the importer's business and one for the purpose of Customs, the latter one representing the goods at an undervaluation. The importer presented this invoice to the Customs and paid duty on that basis.

It appears that the suggestion of the double invoices came from the exporters but seventeen shipments have been investigated and show a total undervaluation of \$899.61.

The matter is under investigation by the department and when the facts were put before our commission, no conclusion had been arrived at for the reason that information asked for in Scotland had not yet been supplied.

RECOMMENDATION

That the department continue its investigation and collect all proper duties and impose such penalties as the circumstances may warrant.

WITNESSES

C. B. Alexander, Volume XIV, Toronto, page 14,651.

A. T. Howards, Volume XIV, Toronto, page 14,742.

S. H. Rutledge, Volume XV, Toronto, page 14,783.

MADEWELL GARMENTS LIMITED
JUVENILES LIMITED

Madewell Garments was incorporated in 1925 and carries on business at Winnipeg, Manitoba. The company took over the business formerly carried on by Juveniles Limited. It manufactures men's and women's garments and its importations are mostly cloths and trimmings from New York and England.

An audit of the books of Madewell Garments Limited was made from the inception of its business to November 11, 1926, by the sales tax inspector and there appears to be a liability for sales tax as of that date of \$3,863.93.

RECOMMENDATION

That action be taken to recover the amount of sales tax as aforesaid.

WITNESSES

A. E. Nash, Volume VII, Winnipeg, page 11,500.

C. Knowles, Volume VII, Winnipeg, page 11,486.

EXHIBIT No. 442.

THE ROYAL CLOAK COMPANY

The operations of this firm were investigated by the special committee of the House of Commons and a report was made by that committee recommending that action be taken against this firm to recover the sums, if any, owing to the Crown (see paragraph 12 of report). The auditors of the commission investi-

gated the transactions of the company subsequent to the date of their report to the Parliamentary Committee, and it is to that period our investigations relate.

It appears from such investigation that the method of computation of the sales tax by this firm is not in accordance with the rulings of the department, and there would appear to be a further liability on account of sales from April 1, 1926, to date on account of inaccuracies of computation. The discrepancies appear to have arisen from failure on the part of the firm to observe the rulings of the department with regard to discounts allowed at the time of sale of manufactured clothes by the manufacturing department to the wholesale department.

In regard to the other matters complained of which were investigated by the special committee of the House of Commons, our auditors report that the practices which were considered improper were discontinued by this firm from March 1, 1926.

RECOMMENDATION

That action be taken by the department to recover the amount of sales tax due by this company.

WITNESSES

A. E. Nash, Volume XV, Toronto, page 14,920.
EXHIBIT No. 598.

THE MAJESTIC DRESS COMPANY LIMITED

This is an incorporated company engaged in the business of manufacturing and selling ladies' dresses, and has its office and factory at 326 Spadina avenue, Toronto.

The evidence adduced before us raises very grave suspicion as to the methods adopted by this company in reference to its importations from the United States. The auditors of the commission found in the books an account designated "Sample Expense", and another account "Travelling Expense."

In reference to the former it appeared that this account was charged with the differences between actual payments to certain United States exporters and the amounts charged to their accounts as representing payments for goods purchased. This would appear to be calculated to conceal the correct sales price of the articles included in these importations, and thereby the Customs officials would be misled. Certain of the records of the company were missing when the auditors for the commission made their investigation into the company's affairs. This rendered difficult thorough investigation.

RECOMMENDATIONS

(1) That the department make a further investigation into the affairs of this company as far as relates to the undervaluation or other improper practices of this company so far as relates to the Customs Branch;

(2) That proper action be taken to recover any amount that may be payable.

WITNESSES

A. E. Nash, Volume XIV, Toronto, page, 14,624; 14,635.
B. Liebman, Volume XIV, Toronto, page, 14,662.
EXHIBITS Nos. 588, 589 and 1048.

S. SILVERMAN

This man was engaged in Toronto as a jobber in silks and woollens. He had been a licensee in connection with the sales tax up to the 1st of January, 1924, when he abandoned his license which was cancelled. Subsequently he used the number of his license in connection with some importations.

The fact that a license is granted gives the importer the privilege of bringing goods in to be manufactured further into other goods for sale. The sales tax is payable when the goods are sold later but the non-licensee has to pay tax at the time of the importation.

The sales tax has not been computed yet and the department should investigate to determine what amount is due.

RECOMMENDATION

(1) That the Department ascertain the amount which is properly due and collect same.

WITNESSES

G. J. C. Glassco, Volume XVII, Toronto, page, 15,088.

E. J. A. Johnston, Volume XVII, Toronto, page, 15,111.

M. G. Thompson, Volume XVII, Toronto, page, 15,116.

EXHIBIT No. 615.

REUBINS HAT LINING COMPANY AND REUBINS MANUFACTURING COMPANY

Reubins Hat Lining Company carries on business in Montreal, Quebec. The business was started in December, 1922, and since that date has been operated under the proprietorship of Mr. Louis Reubins. The business of the company consists of the manufacture and sale of linings for ladies' hats. The company holds sales tax license No. 4062. The importations include artificial silk, cotton, marceline, etc., from Switzerland, Germany, and the United States.

An examination of the records of the company from April 1, 1925, to the 31st of March, 1927, shows that in certain cases settlement invoices were made out on an ordinary billhead of the exporting company and did not show any cash discount, whereas the invoices presented to Customs were made out on the Customs invoice form and showed discounts allowed which were not subsequently earned, due to payment not being made within the specified time. No amending entries covering these transactions appear to have been made.

H. Reubins, a brother of Louis Reubins, occupies joint premises and is engaged in the manufacture of rubber clothing, carrying on business under the name of the Reubins Manufacturing Company. Importations are made from the United States of rubber and rubber flowers, and the garments are manufactured and sold in Canada. The Reubins Manufacturing Company is not a licensee for sales tax purposes and therefore should pay sales tax when importing its materials, as it is not required to make monthly returns to the Sales Tax Department. The records show that on a number of occasions rubber was imported by the Reubins Manufacturing Company in the name of the Reubins Hat Lining Company, and by virtue of the license of the latter company being used, sales tax was not paid at the time of importation. In this way the Reubins Manufacturing Company evaded payment of sales tax on the importations thus made, and although sales have been made by the Reubins Manufacturing Company, no returns of such sales have been made to the Government, nor has any sales tax been paid thereon. This appears to us to be a clear case of abusing the privileges afforded by the sales tax license.

The main fabric imported for use by the Reubins Hat Lining Company was marceline, a fabric composed of silk and artificial silk. Under the rulings of the department, marceline carries a duty of 32½ per cent by virtue of tariff item number 583c. In 1925 and 1926, marceline was imported by the Reubins Hat Lining Company and declared for duty under tariff item number Ex581 at 20 per cent. The amount of duty short paid as a result of these importations declared in this way appears to be \$1,414.91.

The evidence with reference to this matter does not satisfy us that Mr. Reubins made these entries under the wrong item of the tariff purposely but rather that it was a mistake which was shared in by the Customs officials at the port. We are therefore not disposed to make any recommendation with reference to this matter as the goods have been disposed of on the basis of the duty paid. We simply call attention to the facts.

RECOMMENDATIONS

(1) That amending entries be called for with reference to the cash discounts above referred to;

(2) That an investigation be made to ascertain the extent of the rubber importations of the Reubins Manufacturing Company under the license of the Reubins Hat Lining Company, and that the sales tax be collected on such importations;

(3) That the sales tax license of the Reubins Hat Lining Company be cancelled.

WITNESSES

A. E. Nash, Volume VII, Montreal, page 19,646.

J. G. Glassco, Volume VII, Montreal, page 19,647.

H. Reubins, Volume VII, Montreal, page 19,661.

L. Reubins, Volume VII, Montreal, page 19,664.

EXHIBITS Nos. 880 and 881.

MAX WORTZMAN

In dealing with this party, we desire to state at the outset that certain information was furnished to our auditors by officials of the United States Government in confidence, upon the condition that it was not to be made public unless by consent of the officials of the United States Government. The reason assigned for withholding such information was that certain prosecutions were then pending in the United States respecting the operations of a smuggling ring at or near the International Boundary at Niagara Falls.

However, the examination made by the auditors of the commission of the books of this man would appear to confirm the suggestion or suspicion that he had been engaged extensively in smuggling alcohol into Canada during the last two or three years to an amount estimated at upwards of 80,000 gallons. The various bank accounts kept by this man would also indicate that his dealings had been somewhat extensive, although such accounts did not disclose the nature of the business carried on.

RECOMMENDATIONS

(1) That further investigation into the alleged smuggling operations of this man be made by the Department through its preventive service;

(2) That the income tax returns made by this man be reviewed in the light of the evidence in this case.

WITNESSES

A. E. Nash, Volume IV, St. John, page 20,973.

EXHIBITS Nos. 947 and 948.

T. NOWLAN, ST. JOHN, N.B.

Thomas Nowlan is a farmer of Buctouche, N.B., and has been interested on a large scale in the liquor business. Nowlan's contention is that he dealt with liquor on the high seas only, having schooners that would distribute their cargo off the American coast. Nowlan has been interested in many schooners, well known to be engaged in the rum running business.

An investigation of his bank accounts shows that some of these accounts have been very active. The current account in the Canadian Bank of Commerce, from the 30th of June, 1923, to the 20th of June, 1927, shows deposits of approximately \$830,000—many items of from \$10,000 to \$15,000. The savings account in the same bank from May, 1919, to November, 1927, shows deposits totalling \$65,000 consisting chiefly of transfers from the current account.

Nowlan has made returns to the Income Tax Branch but omitted to include the profits made in his trade in liquor on high seas.

RECOMMENDATION

That the Income Tax Branch of the department review Nowlan's income tax returns in the light of the evidence and take the necessary action.

WITNESSES

G. P. Stewart, Volume II, St. John, page 20,581.
J. M. Morrow, Volume II, St. John, page 20,593.
H. J. Johnston, Volume III, St. John, page 20,750.
J. C. Demers, Volume III, St. John, page, 20,922.
A. E. Nash, Volume IV, St. John, page 21,075.
J. O. Legere, Volume IV, St. John, page 21,092.
EXHIBITS Nos. 932, 933, 944 and 953.

J. I. EDDE

This man carried on business in the city of Montreal, and among his other activities imported patent medicines and drugs. In January of 1922, an investigation into his transactions with the Customs Department was conducted by H. L. Carson, an officer of the department. His investigation disclosed,—

- (a) that the invoices and entries made at the Customs did not disclose the amount of the packing charges;
- (b) that the quantities were falsely invoiced;
- (c) that certain advances on list prices made in France were not shown on the Customs invoice;
- (d) that the list or base price of the goods as sold in France had been materially reduced on certain of the invoices.

In connection with these fraudulent practices, certain correspondence was found in the office of this importer which pointed strongly to a definite arrangement between him and the firm in France to make use of these practices for the purpose of evading the payment of Customs duties. Officer Carson made a report in 1922 to the department setting out the practices pursued by this firm, but owing to outside interference, action on the matter was delayed until June of 1927, when Inspector Duncan demanded and received a deposit of the duty-paid value of the goods and penalties, but on the matter being referred to the departmental solicitors, it was found that the penalties were barred by the statutory limitations, and a portion of the deposit was remitted to the importer. Thus the civil aspect of the matter has been settled.

The delay in acting upon the report of Officer Carson was both unreasonable and unnecessary, and resulted in a loss to the revenue.

Owing to the flagrant and persistent violations of the Customs law by this importer, we make the following

RECOMMENDATION

That the evidence be transmitted to the proper department to institute such prosecutions against this party as may be deemed proper.

WITNESS

H. L. Carson, Volume IXa, Ottawa, page 23,781.
EXHIBIT No. 1087.

ALMA GAGNE & ALPHONSE GAGNE

Alma Gagne carries on business as a general merchant at Grand Falls, in the province of New Brunswick. In the month of June, 1927, the Customs officials on the international boundary near Grand Falls discovered a large quantity of dry goods consisting principally of dresses, raincoats, etc., being smuggled into Canada by Alphonse Gagne, brother of the said Alma Gagne. There was evidence to indicate that the practice of Alma Gagne had been to purchase goods in Boston and have them sent to Van Buren, Maine, and from the latter place smuggled into Canada. A complete and thorough investigation had not been made into these operations at the date of the sitting of this commission, but sufficient had been disclosed to indicate that this practice had extended for a considerable period.

RECOMMENDATIONS

(1) That the Department of National Revenue instruct a further investigation to determine the extent of the smuggling or of the undervaluation by these persons, and the amount of the duties and taxes payable, and that action be taken to collect all such duties and taxes together with all penalties properly payable under the Customs Act;

(2) That prosecutions be entered against such of these persons as appear by the result of the investigation to be implicated in the smuggling of the goods into Canada.

WITNESSES

E. J. Roy, Volume II, St. John, page 20,666.
L. J. Perry, Volume III, St. John, page 20,864.
A. E. Nash, Volume VIIa, Ottawa, page 23,746.
EXHIBITS Nos. 1084 and 1085.

CANADA JOBBING AND IMPORTING COMPANY

This firm imported goods from the United States and presented invoices to the Customs covering only part of the goods imported.

The matter was not detected at first by the Customs officials, but complaints were made by some of the firm's competitors in the city of Winnipeg, who alleged that this firm must have been resorting to some improper practices to enable it to compete with the competitors and to charge lower prices for its goods.

An examination was made of all the goods then under the control of the Customs and the fraud was discovered. Duty-paid value was claimed from and paid by the firm on the goods so imported, but the investigation extended only to a limited period of the firm's operations.

RECOMMENDATION

That the department investigate the firm's business with a view to ascertain if it has been guilty of other malpractice or evasions and to collect any further duties found to be payable.

WITNESSES

J. A. McConnell, Volume II, Winnipeg, p. 9,846.

UNITED SHOE STORE (REIDERS LIMITED)

This company known as Reiders Limited operates two shops in the city of Winnipeg known as the Sterling Shoe Shop and the United Shoe Store.

In 1925 complaints were made by Winnipeg dealers in boots and shoes that improper practices were followed by some companies in passing goods through customs at an undervaluation, and the results of our investigation justify such complaints.

An importation made by this company in September, 1926, was declared at customs as being of the value of \$1,123.20 when the real price was \$1,292.40.

A seizure of 221 pairs of shoes was made on the 28th December, 1926. No deposit was made and, at the time of our investigation in Winnipeg, no disposition had been made of the seizure.

RECOMMENDATION

That a further investigation be made to determine the extent of the undervaluation practised by this company, and that the amount of the duties payable, if any, be collected, and all appropriate penalties imposed.

WITNESSES

C. Knowles, Volume III, Winnipeg, page 10,070.

M. Finklestein, Volume III, Winnipeg, page 10,107.

D. Reider, Volume III, Winnipeg, page 10,138.

G. Young, Volume IV, Winnipeg, page 10,215.

A. E. Nash, Volume IV, Winnipeg, page 10,221.

EXHIBITS Nos. 400, 401, 407 and 409.

THE CONTINENTAL IMPORT COMPANY LIMITED

This company was incorporated in July, 1926, with a Dominion charter for the purpose of carrying on a business as wholesalers in the city of Toronto. In the course of its business, the company imported silks, woollens, and cotton goods from Switzerland and other countries.

The evidence established, and it was in fact admitted by the company through its counsel, that in nine separate invoices from Gessner and Company, Zurich, Switzerland, the packing charges were not included but that a separate invoice therefor which was not presented to the customs officials at the port of Toronto was sent by the Swiss firm so that in each case the proper amount of duty was not paid. The amount of duty on the packing charges was very trivial but, as in all the nine cases, the proper invoices were not presented to Customs,

we are of the opinion that it was done deliberately by the employee or officer of the company who made the customs entries. In view of the prevalence of the practices indulged in by this company, we think it desirable that some exemplary action should be taken.

RECOMMENDATION

That the company be called upon to pay the balance of the duty and that appropriate penalties for presenting incomplete invoices and making false entries be imposed.

WITNESSES

A. E. Nash, Volume XIV, Toronto, page 14,624.
S. N. Stein, Volume XIV, Toronto, page 14,631.
M. Hermann, Volume XIV, Toronto, page 16,661.
EXHIBIT No. 588.

MAXIME ALBERT

Maxime Albert is a merchant of St. Hilaire, N.B., and since 1922 has been extensively engaged in smuggling liquors and other commodities into Canada for commercial purposes. Some seizures were made by customs officials and some prosecutions instituted against this man but without much success.

The police were not able to locate Albert at the time of our inquiry in New Brunswick and in consequence, he was not available for examination. An inspection of his bank accounts covering a period of five years from June, 1922, to June, 1927, shows very large deposits amounting to approximately \$800,000.

RECOMMENDATION

That this man's activities in the future be closely scrutinized and that the report of the auditors and evidence bearing on his case be referred to the Department of National Revenue, Income Tax Branch, for review and such action be taken as may be necessary.

WITNESSES

T. S. Moore, Volume II, St. John, page 20,628.
G. Sirois, Volume II, St. John, page 20,647.
E. J. Roy, Volume II, St. John, page 20,666.
G. Nelson, Volume II, St. John, page 20,697.
F. Lucas, Volume IV, St. John, page 20,985.
A. E. Nash, Volume VIIIa, Ottawa, page 23,735.
EXHIBIT No. 1075.

ALCO DRESS COMPANY

The dealings of this firm, so far as related to the Customs Department (now the Department of National Revenue) were partly investigated by the Parliamentary Committee and subsequently the department placed the matter in the hands of counsel. Since that time the auditors of the commission have made a further investigation of the books and records of the company.

The complaints against the company in the first instance were that there were certain shipments of goods from McGreevy, Werring and Howell of New York for which no invoices or entries appeared in the books of the Alco Dress Company, nor any payments to McGreevy, Werring and Howell in settlement. Some explanation was made by the president of the company that these settlements were made through a sample account, but upon examination no satisfac-

tory record could be found of this account. It would appear that subsequent to April 1, 1926, the company's records correspond generally with the entries in the customs.

In addition to the prosecution of the claim for arrears of customs duties, it would appear that the company had not computed the sales tax upon the proper basis as laid down by the Sales Tax Branch in that the tax was not computed by the company until after the actual sales had been made, and such computations were made without regard to list prices or wholesale prices established by sales to quantity customers.

RECOMMENDATIONS

(1) That the action against the company in respect to the claim now in the hands of Counsel be vigorously prosecuted;

(2) That the Sales Tax Branch take immediate proceedings to collect all sales taxes owing by the company upon the basis of the rulings of the department.

WITNESSES

A. E. Nash, Volume XV, Toronto, page 14,920.

EXHIBIT No. 598.

BALFOUR, GUTHRIE & COMPANY

This firm has its headquarters in the city of San Francisco, with a branch office at Vancouver, B.C. Among its other activities at the latter branch is that of importing salt. Under the tariff, salt which is imported for gulf and sea fisheries is free under all classifications, while for other uses it is dutiable. This firm imported a large quantity of salt and entered it as for use in fishery purposes, whereas in fact a large proportion was sold to customers for other uses. This imposed upon the firm the obligation of making amending entries and paying the duty properly chargeable in respect of salt used for other than fishery purposes, but it failed to make the amending entries.

The general manager, one T. W. B. London, testified before the commission that these matters were left to the employee, Walton, who did not disclose the methods employed by him until Mr. N. J. DeGraves, Special Customs and Excise Enforcement Officer, investigated the matter, whereupon a deposit was required covering the duty-paid value of the salt which was sold for other than fishery purposes.

The report of the commission's auditors shows that there was imported by this firm 3,746 tons and 450 pounds of salt upon which duty and sales tax were not paid as they should have been and that in addition thereto, there was sales tax payable in respect of the bags containing the said salt, numbering 71,176.

As the matter was under investigation and consideration by the department, we do not deem it advisable to make any specific recommendations in regard to the disposition of the case, but to submit the evidence showing the facts and circumstances in connection with the whole matter. Our investigation convinced us that in all cases where the payment of duty is dependent upon the use to which the article imported is afterwards applied, the duty should in the first instance be levied when imported for sale, and where the goods have been sold for purposes which entitled them to free entry, a rebate should be applied for by the importer. As an alternative, we would recommend that in like cases the goods which are declared as being for specified purposes which render them non-dutiable be separately warehoused and a strict account kept of the sales showing the names of the customers, etc., so that the officers of the department may easily trace the final disposition of the goods.

WITNESSES

N. J. DeGraves, Volume VII, Vancouver, page 6,420.

W. B. London, Volume VII, Vancouver, page, 6,435.

A. W. Wright, Volume VII, Vancouver, page 6,455.

A. E. Nash, Volume VII, Vancouver, page 6,470.

W. B. Davidson, Volume IX, Vancouver, page 6,670.

EXHIBITS Nos. 225 to 228 inclusive.

EVANS, COLEMAN & EVANS LIMITED

This company appears to have followed the same procedure as that followed by Balfour, Guthrie and Company in the importation of salt, and our recommendation in respect of the latter firm would apply with equal force to this company.

According to the evidence of the manager of this company, he estimated that a certain percentage, in this case 85 per cent, would be for fisheries, and the balance of 15 per cent for dutiable purposes, and the entry was made upon this basis. The actual sales for fishery purposes did not exhaust the percentage estimate, so that a very considerable quantity which was entered as being for fishery purposes, and therefore duty free, was afterwards sold for other purposes which imposed upon the company the duty to make amending entries, which it failed to do. The department in this case also required a deposit.

The matter was under consideration at the time we made our investigation. We are of opinion that the manner of procedure adopted by this firm and its resultant loss to the customs support our recommendation that the duty should in the first instance be levied in all such cases and the importer required to apply for a rebate and furnish the necessary evidence in support of his claim rather than the present method.

WITNESSES

J. Crawford, Volume VII, Vancouver, page 6,467.

A. E. Nash, Volume VII, Vancouver, page 6,470.

EXHIBIT No. 226.

CAPLAN HAT LINING COMPANY, MONTREAL

This firm, located in Montreal since 1925, manufactures and sells linings for ladies' hats. It imports marcelines and other goods from European countries.

Upon investigation of its books, covering only a limited period, it was found that the marceline purchased from Jean Lethold of Zurich, Switzerland, was shipped accompanied with three copies of each invoice. The original invoice showed the cost of casing and packing, but this was not mentioned on the two copies presented to the customs.

For a period of fifteen months the difference in value between the original invoices and the copies so presented to the customs amounted to \$122.40, on which the duties payable were \$22.21.

The contention of the firm is that Jean Lethold of Zurich is the only one of its exporters who followed this practice, and that the copies were presented by error.

The company was penalized by the department and paid the duty-paid value of the goods in August last after the matter had been detected by our Commission.

RECOMMENDATIONS

That the department make a further investigation of the books of the company and collect all proper duties and appropriate penalties.

WITNESSES

A. E. Nash, Volume VII, Montreal, page 19,646.

L. Reubins, Volume VII, Montreal, page 19,680.

J. G. Glassco, Volume VII, Montreal, page 19,683.

J. L. Caplan, Volume VII, Montreal, page 19,686.

Volume IVa, Ottawa, page 22,935.

EXHIBIT No. 880.

THOMAS COGGER AND COGGER & SONS

This man and his sons were engaged in the liquor trade in the city of St. John, N.B., under the name of Cogger and Sons. Their bank accounts were examined by the auditors of the Commission and revealed that over \$3,000,000 had passed through their various bank accounts.

RECOMMENDATION

That the matter be referred to the Income Tax Branch for investigation.

WITNESSES

A. E. Nash, Volume IV, St. John, page 21,073.

Volume IVa, Ottawa, page 22,918.

W. M. Ryan, Volume IVa, Ottawa, page 22,922.

EXHIBIT No. 952.

THE SURPRISE SHOE SHOP, LIMITED

This company carries on business at the city of Winnipeg as shoe dealers. During the years 1925 and 1926 it imported considerable quantities of shoes from the United States. The invoices for goods imported by this company in connection with the transactions complained of by the customs authorities were from the firm of Guthmann-Carpenter of Chicago, although in the consignment were some goods not purchased from that firm but sent to them to be forwarded. The customs authorities entertain the belief that these goods were purchased from the Novelty Shoe Company and were forwarded by the firm of Guthmann-Carpenter to avoid the ruling of the customs authorities that the invoices upon all goods shipped by the Novelty Shoe Company should be advanced 40 per cent on account of their previous false invoicing of goods. The evidence would indicate that this was the case.

The price of certain goods imported by this company was subjected to a 10 per cent cash discount, but the invoice presented to the customs showed the net price only, and made no reference to the discount. As the only cash discount allowed by the Customs Act is $2\frac{1}{2}$ per cent, this device on the part of this company had the effect of inducing the customs officials to collect a less amount of duty, and thus the revenue was defrauded.

Another device practised by this company was in connection with certain shoes purchased by them at \$2.50 per pair, whereas the invoice showed \$2.90 as

the cost price. If the goods had been entered at their true price, \$2.50, they would have been liable for dumping duty, and it is obvious that they were entered at the higher rate, \$2.90, in order to avoid the imposition of this dumping duty. This procedure resulted in a loss to the revenue though not of any considerable amount, yet it was contrary to law, and the practice ought not to be overlooked.

Following these improper practices three seizures were made by Inspector Knowles, one on September 8, 1925, another November 12, 1925, and a third December 28, 1926. At the time of our sittings in Winnipeg the first seizure had been disposed of but the other two remained undisposed of.

RECOMMENDATIONS

- (1) That the seizures mentioned be disposed of;
- (2) That the Department of National Revenue make a further investigation to determine the extent of the improper practices of this company, and the amount of duties payable in respect thereof, and that the department take action to collect such duties together with all penalties properly payable under the Customs Act.

WITNESSES

C. Knowles, Volume III, Winnipeg, page 10,070.
 M. Finklestein, Volume III, Winnipeg, page 10,107.
 M. Finklestein, Volume IV, Winnipeg, page 10,184.
 L. Brenner, Volume III, Winnipeg, page 10,155.
 H. Rubin, Volume IV, Winnipeg, page 10,183.
 B. Corrigan, Volume IV, Winnipeg, page 10,216.
 A. E. Nash, Volume IV, Winnipeg, page 10,220.
 EXHIBITS Nos. 400, 402, 404, 405, 407, 408 and 409.

THE DARLING DRESS COMPANY

The above is the firm name under which Robert Cabotte carries on business as a dealer in dry goods, mostly silk dresses, at the city of Montreal in the province of Quebec. It is alleged that this man persistently and flagrantly violated the customs laws and regulations. The evidence taken before us showed that he kept two bank accounts, one in the name of the firm and the other a private account in his own name. His practice was to pay some of the trade accounts out of the firm bank account, while he paid other cheques in connection with the firm business out of his private account. This practice was indulged in to conceal the actual prices paid by him for the goods purchased from certain firms in the United States.

Upon complaint officers of the Department of National Revenue made an investigation, and discovered several serious irregularities and violations of the law, mainly in the following particulars:—

- (1) That the invoices produced to the Customs officials did not disclose the correct price paid for the goods included therein, but in very many instances showed undervaluation;
- (2) That the commissions paid to purchasing agents in New York were not included in the invoices presented by the firm to the Customs officials;
- (3) That in the case of one particular United States firm an invoice presented to the Customs represented only about one-half of the actual selling price;

(4) That by means of the method pursued by Cabotte in keeping two bank accounts, it was exceedingly difficult for the investigating officers to discover the real purchase price of the goods included in the several invoices.

In addition to the foregoing it was found that certain books of account were missing or mutilated.

All these irregularities and circumstances raise strong presumption that the methods pursued by this man constituted a systematic and persistent effort to defraud the revenue.

RECOMMENDATIONS

(1) That the officials of the Department of National Revenue make a further investigation to determine the extent of the smuggling or of the undervaluation, and other improper practices of this firm, and the amount of the duties and taxes payable, if any, by it;

(2) That the department take immediate steps to collect such duties, and taxes, together with all penalties incidental thereto: and that prosecutions be instituted against Cabotte in case the department shall determine such evidence to be sufficient to warrant a prosecution.

WITNESSES

A. E. Nash, Volume IVA, Ottawa, page 22,971.
 F. Norris, Volume VIII, Montreal, page 19,787.
 F. Norris, Volume IX, Montreal, page 20,080.
 R. Cabotte, Volume VIII, Montreal, page 19,792.
 R. Cabotte, Volume IX, Montreal, page 20,081.
 T. B. Hurson, Volume VIII, Montreal, page 19,789.
 T. B. Hurson, Volume IX, Montreal, pages 20,080; 20,091.
 S. C. Morse, Volume IX, Montreal, pages 20,071; 20,091.
 EXHIBITS Nos. 906, 907, 908 and 1055.

NATHANIEL DAUPHINEE

BYRON DAUPHINEE

These parties, father and son, live at Tantallon on the eastern coast of the province of Nova Scotia. They have been engaged for a number of years in smuggling liquors into the province of Nova Scotia from schooners operating on the Atlantic coast, and disposing of it to bootleggers. The bank accounts of Byron Dauphinee from 1923 up to the present time show large deposits amounting to approximately \$150,000 which would be some evidence to indicate the extent of his operations. This party has never made any income tax returns. Evidence was adduced before us which indicated that certain prosecutions had taken place or were pending against these parties in connection with their smuggling operations. The information which the commission secured concerning the Dauphinees was largely obtained by an examination of the parties themselves under oath.

RECOMMENDATION

That action be taken to recover such income taxes as may be found to be due upon further investigation, and that action also be taken to recover such penalties as should be imposed in connection with the smuggling operations of these parties and the loss of revenue in consequence thereof.

WITNESSES

A. E. Nash, Volume VIII, Ottawa-A, page 23,741.
 H. Dauphinee, Volume II, Halifax, page 21,445.
 N. Dauphinee, Volume II, Halifax, page 21,462.
 Noah Dauphinee, Volume II, Halifax, page 21,469.
 Mrs. M. Manuel, Volume VI, Halifax, page 22,110.
 E. L. R. Legg, Volume I, Halifax, page 21,252.
 EXHIBITS Nos. 966, 968, and 1079.

SELWYN A. ERNST

This man is a merchant and shipbuilder at Mahone Bay, Nova Scotia. The evidence shows that he was part owner of several vessels engaged in the rum-running business off the coast of Nova Scotia during the years 1923 to 1926 inclusive, and that he was likewise interested in the cargoes carried by these vessels, and in the profits made from the disposal of the cargoes to others, who smuggled them into Canada. Others interested with this man in these boats and cargoes, and in the profits, were W. A. Ernst, Freeman J. Ernst, the Ernst Shipbuilding Company, L. Wentzel, and several others in a lesser degree. The evidence bearing on this case was largely secured from an examination of S. A. Ernst himself and his bank accounts. The principal vessels referred to are the *Partara*, the *Partanna*, and the *D. D. McKenzie*. Ernst admits that these vessels brought the rum from the West Indies and took their position off the coast of Nova Scotia with a view to the goods being smuggled into Canada, and that he had an agent on shore to advise of the vessels' position those who might be disposed to purchase any part of the cargo. This man's bank deposits between April, 1923, and June, 1927, are over \$300,000 with a possible profit from the aforesaid liquor operations of approximately \$200,000; and it is estimated by our auditors that the duties and sales taxes on the liquors which were smuggled into Canada from these boats, if cleared at Customs, would amount to over \$1,000,000. Ernst admits that he has made no income tax returns from these activities. This case strikingly illustrates the wide extent of smuggling of liquors into Canada on the Atlantic coast, and the consequent enormous loss of revenue.

RECOMMENDATIONS

- (1) That action be taken to collect income tax due from Ernst and his associates;
- (2) That the evidence be forwarded to the proper department and that this man be prosecuted for smuggling or conspiring to smuggle in case the department finds that the evidence justifies prosecution;
- (3) That the evidence be reviewed by the proper department with a view to ascertain and advise whether or not Ernst is liable for payment of the duties lost to the Crown by virtue of the smuggling operations referred to and for appropriate action.

WITNESSES

S. A. Ernst, Volume IV, Halifax, page 21,751.
 S. A. Ernst, Volume V, Halifax, page 21,972.
 E. C. Adams, Volume V, Halifax, page 21,851; 21,883.
 C. Fancy, Volume II, Halifax, page 21,473.
 EXHIBITS Nos. 1001, 1002 and 1082.

CAPT. EDWARD A. DICKS

This man lives at Charlottetown, Prince Edward Island, and owns or is interested in several schooners engaged in the rum running business off the coasts of Nova Scotia and Prince Edward Island. The evidence bearing on his activities was secured from himself. It is clear that much, if not all, of the liquors carried by these schooners was eventually smuggled into Canada by others who took delivery from the boats.

This man has never made any income tax returns, although his activities would indicate he must have had a considerable income. There is no evidence which would be available in any prosecution against Dicks.

RECOMMENDATION

That action be taken by the Income Tax Branch of the department

WITNESS

Edward Dicks, Charlottetown I., page 22,213.
EXHIBIT No. 1104.

GEORGE MADER

George Mader lives at Mahone Bay, Nova Scotia, where he is a hotel-keeper. He has been interested in the schooner *Arthur J. Balfour*, since the spring of 1926. This schooner has been engaged in the liquor business going to Georgetown, Demarara, loading with liquor there and selling that liquor on the high seas. Mader has admitted that the schooner, when outside of the three mile limit from the shore of Nova Scotia, sold liquor to parties from Nova Scotia who took delivery from the vessel and, from this evidence, it would appear that Mader was a party to the smuggling of such liquor into Canada.

It has been shown that Mader has never made his income tax returns. Our auditors, in the examination of Mader's bank accounts, have found that substantial sums of money passed through these accounts from which it may fairly be presumed that there were considerable profits.

RECOMMENDATION

(1) That action be taken to recover the amount of duties properly payable on the liquors smuggled as aforesaid;

(2) That the Commissioner of Income Tax take the necessary proceedings to recover the amount of Income Tax that may be found to be due.

WITNESSES

Nash, Volume VIIIa, Ottawa, page 23,744.
G. Mader, Volume III, Halifax, page 21,367.
EXHIBIT No. 1082.

NOVELTY SHOE COMPANY LIMITED

This company carries on business at the city of Winnipeg in the province of Manitoba as dealers in boots and shoes.

It would appear from the evidence adduced before us that this company had on several occasions imported shoes from the United States at a figure which rendered the goods so imported liable to a dumping duty. An investigation was made by Inspector Knowles of the department, who ascertained that the practice had been an extensive one extending over fifteen months prior to the date of his report.

The invoices presented by this company to the customs on several occasions showed a discount of 10 per cent from the original price as a trade discount whereas in fact it was a cash discount, and in respect of such cash discount the Customs Act provides that only 2½ per cent may be deducted from the cost price. To circumvent this provision of the Customs Act, the invoices represented the 10 per cent deduction as being a trade discount, which would be allowable. Three seizures were made by the customs officials, and deposits obtained from this company, but at the date of the sittings of this commission in February, 1927, two of the seizures had not been determined, although made in the year 1925.

The investigation made by the customs officials extended over only a limited period, and we think that as the irregular practice of this company appears to be general a further investigation should be made.

RECOMMENDATIONS

(1) That the officials of the Department of National Revenue conduct a further examination to determine the extent of the undervaluation of the goods imported by this company, or other improper practices as regards customs entries;

(2) That the investigation also be directed towards ascertaining the different importations in respect of which dumping duty should be levied;

(3) That the seizures made should be pressed to a decision;

(4) That the department take action to collect all customs duties that may be due by this company, together with all penalties incidental to the breaches of the Customs law or regulations committed by them.

WITNESSES

N. Narevlansky, Volume III, Winnipeg, page 10,152.

G. Young, Volume IV, Winnipeg, page 10,215.

M. Stanger, Volume VIII, Winnipeg, page 11,584.

EXHIBITS Nos. 400, 402, 403, 407 and 409.

MILADI LIMITED

This company which is engaged in Winnipeg in the trade of ladies' wear, has been found importing dresses and using false invoices showing undervaluation. The company has been penalized and has been required to pay the duty paid value of the goods amounting to \$2,650. The books and records of the company have been examined by our auditors but the investigation showed missing records, books in bad shape, cash book and journal prior to March, 1926, missing, with the exception of a small portion of the journal.

In view of the absence and mutilation of the books we recommend:

RECOMMENDATION

That a further investigation be made of the activities of this company with a view to ascertain the extent of their smuggling operations, and that appropriate action be taken according to the disclosures.

WITNESSES .

A. E. Nash, Volume VII, Winnipeg, page 11,488.

L. A. Eckmire, Volume VII, Winnipeg, page 11,472.

C. Knowles, Volume VII, Winnipeg, page 11,485.

H. C. Brett, Volume VIII, Winnipeg, page 11,581.

EXHIBIT No. 442.

LUIGI CALISSANO & FIGLI COMPANY, LIMITED.

This company was incorporated on the 6th of October, 1923 for the purpose of acquiring the assets connected with the manufacturing branch of the Richard Beliveau Company, Limited. From the date of incorporation until March, 1925, they acted as manufacturers of wine for the Richard Beliveau Company, Limited, and were located in the same premises in Winnipeg. On this latter date, a fire destroyed the plant of both companies and forced the Richard Beliveau Company, Limited, into liquidation and this company had to move to new premises. Thereafter they carried on business as wine manufacturers, manufacturers' agents and importers.

The business of the company may be divided into three branches: The manufacture of wine, the importation and sale of foreign goods, the retailing of Canadian made products other than wine.

As wine manufacturers, the company has a brewer's license. The company imports from Italy various concentrates of full strength and treats and dilutes them for sale.

The company has not made regular returns for either sales or gallonage tax purposes. Moreover, the form B-93 has not been filed monthly as required by the departmental regulations.

The amounts paid by or assessed against the company for gallonage taxes have not been in accordance with the rulings of the department and there is a substantial further liability, the amount of which has not been determined.

The concentrates imported have been used by the company and the process may be held to be manufacture. This question should be decided. Depending upon that decision the amount of sales tax payable may be modified either in favour of or against the company.

The company has not kept the book required by the department from brewers and so there is no accurate record of the production of wine.

The records that brewers have to keep under the departmental regulations do not appear to be suitable to the business of wine manufacturing.

The company has also been engaged in the manufacture and sale of flavour extracts, designated as Scotch whisky, brandy, gin and some other liquors, also in the sale of bottles, corks, and various labels of different brands of liquor. No alcohol is used in the preparation of the flavour extracts. The liquor labels have been sold openly in large quantities.

Nothing in the evidence suggests that the management of the company intended to infringe the law in selling those flavour extracts and labels.

However, it is quite evident that the practice is not commendable as it has a tendency to help and encourage bootlegging. It may be mentioned that those labels were not approved as required by the Excise Act.

RECOMMENDATION

That the department take appropriate action for the collection of all taxes due.

WITNESSES

J. Ghezzi, Volume VI, Winnipeg, page 11,260.

C. E. Viau, Volume VI, Winnipeg, page 11,323.

C. E. Viau, Volume VI, Winnipeg, page 11,370.

A. E. Nash, Volume VI, Winnipeg, page 11,336.

A. Code, Volume VI, Winnipeg, page 11,347.

EXHIBITS Nos. 432 A—H Inc; 433, 434, 435, 437, 438, 439, 443.

THE GREAT WEST WINE COMPANY.

This firm formerly carried on the business at the city of St. John in the province of New Brunswick of exporting liquors. In the year 1922 it shipped a very considerable quantity of liquor on a vessel known as the *Arcloa*, ostensibly for Havana, Cuba. The shipment was of in transitu goods, and under the regulations of the department a bond was given by the shippers in the usual form conditioned upon the goods being actually exported to and landed at the port of destination, and that a landing certificate from the proper authorities at the port of destination would be furnished. An alleged landing certificate was furnished, but upon presentation was declared to be fraudulent. A second landing certificate was then procured, and it was also rejected as being forged or fraudulent. Afterwards a third landing certificate was procured for the same goods, and the department ordered the bonds to be returned. In view of the fact that the first two landing certificates presented in respect of this cargo were false and fraudulent, we think that a more thorough investigation of the third landing certificate should have been made by the department before ordering a release of the bond. It is probable that an investigation would show that the third landing certificate was not genuine.

As the question of recommending actions to be taken in respect of bonds ordered to be released will be dealt with in connection with other special cases under consideration by the commissioners, we refrain from making a recommendation in reference to this case.

WITNESSES

W. H. Burgess, Volume IIIa, Ottawa, page 22,611.
W. J. Levin, Volume V, Vancouver, page 6,035.
J. H. Lavallee, Volume III, St. John, page 20,808.
L. E. Whittaker, Volume III, St. John, page 20,896.
C. B. Lockhart, Volume III, St. John, page 20,847.
H. Ripstein, Volume Ia, Ottawa, page 22,270.
H. Ripstein, Volume VIIa, Ottawa, page 23,690.
R. Swanson, Volume IV, Vancouver, page 5,034.
R. Swanson, Volume V, Vancouver, page 5,090.
M. Ashmore, Volume VIIIa, Ottawa, page 23,710.
EXHIBIT No. 1073.

B.C. VINEGAR COMPANY LIMITED

In August, 1925, the Sunset Vinegar Company Limited of Vancouver was reorganized under the name of the B.C. Vinegar Company Limited. The former company was apparently owned and controlled by two parties, James Ball and Sam Levi of Vancouver. The present company is apparently owned and controlled by Ball. Both companies during the period of their respective operations have held a bonded vinegar manufacturing license.

Neither Ball nor Levi was available to the Commission during our investigation at Vancouver into the activities of these companies. The only person on the premises and in any way pretending to have anything to do with the business was one J. R. Matthew who represented himself as secretary of the company. Matthew knew little or nothing about the company's activities, nor could he give us any satisfactory information as to whether or not the business was to be continued, nor as to when Ball would return to direct its activities. There was evidence that Ball had left for Seattle shortly before the visit of our auditors to the plant and was still in the United States while

our Commission was in session at Vancouver. All the books of the Sunset Vinegar Company, and all books connected with the present company except the financial books for the twelve months immediately preceding the investigation had been taken away by Ball. Even such financial books as were available were apparently incomplete. Owing to the incomplete records and to the absence of Ball and his former partner, Levi, our auditors were unable to make a satisfactory investigation or report.

The premises occupied by the company are rented from the B.C. Distillery Company Limited, and all spirits used in the manufacture of vinegar during the past year were apparently bought from that distillery, but owing to incomplete records, our auditors were unable to state whether or not all duties and sales taxes have been paid.

The evidence indicated that this company was using its premises for the purpose of carrying on an illicit trade in liquor, and we are convinced it does not exist for the legitimate business of manufacturing vinegar. If the Minister had power to cancel the license of this company, we would recommend cancellation forthwith.

RECOMMENDATION

That the license be not renewed, and that in the meantime the company's operations be closely scrutinized.

WITNESSES

J. R. Matthew, Volume XIV, Vancouver, page 7,480.

G. A. Allen, Volume XVII, Vancouver, page 7,941.

A. J. Cawdron, Volume XI, Winnipeg, page 12,033.

A. E. Nash, Volume XI, Winnipeg, page 12,032.

EXHIBITS Nos. 252 and 495.

HARRIS BROTHERS

This firm is engaged in the liquor business at Windsor, Ont., acting as independent exporters. The evidence shows that the business which they conduct is of considerable proportion amounting to banking transactions of between \$150,000 and \$175,000 per month.

It would appear that considerable profits must have been made from this business.

RECOMMENDATION

That the matter receive the attention of the Income Tax Branch of the department.

WITNESSES

S. Harris, Volume III, Windsor, page 15,625.

S. Harris, Volume VIII, Windsor, page 16,510.

S. Harris, Volume IX, Windsor, page 16,675.

J. H. LAVALLEE

This man carried on business in the city of St. John, in the province of New Brunswick, as a dealer in liquors but the evidence adduced before us disclosed no violations of the Customs or Excise Acts by him. The examination of his bank accounts by the auditors for the commission revealed a somewhat complex method of keeping his bank accounts, and it has been urged by counsel for the Commission that the evidence should be transmitted to the Income Tax Branch in

order that a comparison of the bank accounts may be made and further investigation to ascertain whether or not the income tax returns made by him were accurate.

We recommend that such be done.

WITNESSES

A. E. Nash, Volume IV, St. John, page 21,073.
A. E. Nash, Volume VIIa, Ottawa, page 23,738.
G. A. Stackhouse, Volume III, St. John, page 20,831.
Mrs. B. M. Sproul, Volume IV, Halifax, page 21,774.
J. G. Glassco, Volume IV, Halifax, page 21,838.
EXHIBITS Nos. 952, 987 and 1077.

G. A. STACKHOUSE

G. A. Stackhouse, residing at St. John, N.B., has been engaged in the liquor trade during the years 1924 to 1927.

The bank accounts investigated by the auditors show that during that period over \$250,000 had been deposited to his credit.

RECOMMENDATION

That the Income Tax Branch of the department review the evidence and take appropriate action.

WITNESS

A. E. Nash, Volume IV, St. John, page 21,073.
A. E. Nash, Volume VIIa, Ottawa, page 23,738.
EXHIBIT No. 1077.

W. M. EGAN

In January, 1922, Mr. W. M. Egan, then a solicitor practising at Windsor, Ontario, was appointed solicitor or agent of the Department of Customs and Excise to act for that department in connection with the prosecutions for the infringement of the Customs and Excise Acts, and he continued to hold that position until sometime in the year 1926. During this period he received payments from a number of breweries and liquor exporters. The result of the mass of evidence adduced before us in connection with these payments points to the conclusion that the payments were exacted by this solicitor and paid by the brewers and liquor exporters in question in consideration of certain favourable treatment being promised to the latter in connection with the export of beer and liquors to the United States, and to secure immunity from prosecution of the regulations governing the export of liquors.

There was no direct evidence showing that there had been any interference by Egan with any of the customs officials or with the department, but the outstanding fact remains that during the period mentioned there were very few prosecutions instituted at Windsor by this solicitor in respect of violations of the Customs or Excise Acts, and from this inferences might reasonably be drawn to the effect that such condition was brought about by this solicitor in consequence of the payments made to him. At the time of our inquiry the solicitor had left Canada and was reported to be living in the United States.

Under all the circumstances we feel justified in reporting the facts appearing on the evidence in order that such improper and highly reprehensible conduct on the part all parties to the arrangement might be exposed, even if the evidence falls short of establishing a *prima facie* case for a criminal prosecution. We also

think that it is important to report the facts, as they have an important bearing upon the administration of the Customs and Excise law at the port of Windsor, into which an investigation was recommended by the committee of the House of Commons in their report.

WITNESSES

G. Campeau, Volume XVIII, Toronto, page 18,230.
 S. A. Griggs, Volume VI, Windsor, page 16,206.
 S. A. Griggs, Volume IX, Windsor, page 16,547.
 E. Thistle, Volume VI, Windsor, page 16,214.
 F. A. Landrieau, Volume IX, Windsor, page 16,635.
 A. E. Nash, Volume I, Montreal, page 18,650.
 C. A. Williams, Volume X, Windsor, page 16,769.
 J. Cooper, Volume XI, Windsor, page 16,936.
 Harry Low, Volume XI, Windsor, page 16,960.
 T. Healy, Volume III, Hamilton, page 17,409.
 S. A. Moore, Volume III, Hamilton, page 17,538.
 G. Russell, Volume XIX, Toronto, page 18,472.
 H. Massey, Volume IV, Hamilton, page 17,750.
 B. Moriarity, Volume V, Hamilton, page 17,775.
 L. A. Irion, Volume III, Niagara Falls, page 18,133.
 H. F. Kuntz, Volume I, Montreal, page 18,615.
 L. J. Lafferty, Volume X, Windsor, page 16,739.
 J. G. Lawrence, Volume IX, Montreal, page 20,094.
 E. M. Burke, Volume XIII, Toronto, page 14,544.
 E. M. Burke, Volume XIX, Toronto, page 18,475.
 J. F. Cosgrave, Volume XVIII, Toronto, page 18,285.
 C. Burns, Volume XIX, Toronto, page 18,553.
 P. Eglin, Volume VI, Windsor, page 16,062.
 W. A. Jacques, Volume VIII, Windsor, page 16,487.
 EXHIBITS Nos. 798, 835 and 911.

THE CANADIAN TOBACCO BY-PRODUCTS COMPANY LIMITED

In November, 1926, this company made application to the Acting Collector of Customs and Excise at Montreal for a bonded manufacturer's license, stating that it proposed to manufacture perfumes, lotions, etc., in the manufacture of which, non-potable alcohol would be used. The application was accepted and the license was granted to the company.

Shortly afterwards it was reported to the department that unusually and suspiciously large quantities of alcohol were being released and although the mixtures were supervised by an officer of the department, yet suspicions were aroused, and properly so, that the same were being used for some ulterior purpose. Departmental officials acted promptly and the bonding privileges were withdrawn.

In the meantime, however, the company had disposed of a large quantity of its product through some arrangement with a company known as La Compagnie des Produits Gauvin, and had shipped large quantities to the Progress Importing Company which was alleged to be carrying on business at 14 Liberty street, in the city of Toronto. Upon investigation it was found that this latter company was non-existent or fictitious and this fact, coupled with the unusually large quantities of alcohol used in the manufacture, raised very strong suspicion that the whole procedure was a scheme to procure the alcohol to be released on payment of the excise tax of 75 cents per gallon when used for industrial pur-

poses and re-claim the alcohol from the manufactured product for use as potable alcohol. La Compagnie des Produits Gauvin appear to have acted in co-operation with the Canadian Tobacco By-Products Company in order to enable the latter to effect its improper designs.

We think that the matter should be further investigated and action taken to recover the loss to the Department of National Revenue by reason of the wrongful acts on the part of this company in defrauding the revenue of a large sum of money in case the evidence can be procured that would be sufficient to establish the claim. It may also be found desirable to prosecute some of the officers or officials of this company for their fraudulent practices, but owing to the incomplete investigation to the date of the hearing of the matter, we are not in a position to recommend that any specific action be taken until the matter be further and more fully investigated.

WITNESSES

A. Houle, Volume II-A, Ottawa, page 22,510.
A. Laing, Volume III, Montreal, page 19,022.
A. A. Andrews, Volume III, Montreal, page 19,035.
E. D. Lennie, Volume III, Montreal, page 19,046.
G. W. Taylor, Volume II-A, Ottawa, page 22,473.
W. Caven, Volume II-A, Ottawa, page 22,480.
EXHIBITS Nos. 1029 and 1030.

JOSEPH U. PICHE

This officer is sub-collector at the outport of Sandwich, under the port of Windsor, Ontario, and it is alleged against him that he accepted moneys from the British American Brewing Company Limited in contravention of the regulations of the department. William R. Bonds, Vice-President of the British American Brewing Company, testified that he paid this officer several payments of \$100 each in connection with the clearances of certain shipments of beer from the outport of Sandwich. He stated that it was for extra services performed by this officer in attending at his office before and after office hours and facilitating the shipments made by the British American Brewing Company to the United States, in giving clearances after office hours, and other work of a like nature.

The officer denied that any such payments had been received by him.

An investigation was made in 1923 by Inspector Robert H. Bernard who endeavoured to get a statement from Mr. Bonds, but the latter, acting under the advice of his solicitor, refused to give any information or to make a statement in writing, and as the inspector had no power to compel such statement to be made under oath or otherwise, he as a matter of course accepted the denial of Officer Piche, and reported the facts to the department.

Upon the evidence before us, we find, having regard to the demeanour of the witnesses and the interest of the officer on the one hand and the absence of interest of Mr. Bonds on the other, that the evidence given by the witness Bonds is to be accepted in preference to that of Piche; and that this officer did accept several payments from Mr. Bonds as the vice-president of the British American Brewing Company in respect of his work at the outport of Sandwich. It is a notable fact that a very large proportion of the shipments of liquor for export to the United States passed through the outport of Sandwich, although the customs offices at Windsor are much more convenient to the shippers than those at Sandwich. A great many irregularities also were found to exist in the outport of Sandwich in connection with shipments for export, and this tends to

confirm our finding against this officer, although upon the evidence alone, quite apart from these circumstances, we feel warranted in reporting against him. We are of the opinion that in any event this officer should be transferred from his present post. We also desire to report our findings of facts in order that the department may take the proper disciplinary action in accordance therewith.

WITNESSES

W. R. Bonds, Volume V, Windsor, page 15,997.
R. H. Bernard, Volume IV, Montreal, page 19,204.
D. Piche, Volume VI, Windsor, page 16,101.
EXHIBITS Nos. 730 and 876.

ALLAN PEARSALL

This officer was sub-collector at the outport of Kingsville in the district of Windsor, Ontario.

Commencing May, 1926, this officer received from the firm of Hoffman and Dunford who operated a liquor export warehouse at Kingsville, Ontario, the monthly sum of \$50 for six months. When called to give explanation he admitted receipt of the money, but stated that it was to cover his expenses of transportation to and from the customs office which was uptown, a considerable distance away from the dock where the firm of Hoffman and Dunford had its warehouse. He testified that the money was paid to and received by him for the purpose of covering his expenses only, and not for requiring him to do anything unauthorized by the regulations, or in conflict with his duty. The practice as disclosed in the evidence is a most pernicious one, and if permitted to be indulged in with immunity would weaken and corrupt the whole customs administration. We do not think that any officer so ignorant of the impropriety of accepting moneys under circumstances such as these should be allowed to remain in the service of the department, or at least without a severe reprimand. We think it proper in this case to merely report the facts and to recommend that the department take such disciplinary measures as the facts warrant.

WITNESSES

L. Hoffman, Volume III, Windsor, page 15,612.
A. Pearsall, Volume II, Windsor, page 15,525.
A. Pearsall, Volume V, Windsor, page 15,978.
W. C. Dunford, Volume III, Windsor, pages 15,573 and 15,580.

L. J. LAFFERTY

Lafferty is an officer of customs at Windsor who gave us evidence of the practice followed at that place in connection with the smuggling of liquor from Canada to the United States.

In 1924 Lafferty says that when on duty at the ferries at Windsor, Calderwood, one of his fellow officers, gave him in three payments about \$100. This money was supposed to have been given by smugglers of liquor from Canada to the United States over the ferries to induce the officers of the Canadian Customs not to report such activities. This man asked to be transferred from the ferries to another place, and was, in consequence, transferred to the docks.

While on duty at the docks, he interfered with the practice of many smugglers of liquor and beer in the United States in bringing back empty kegs without declaring them to the customs, and he also interfered with railway cars laden with liquor but not so designated in the bill of lading.

Lafferty testified that he was called to Egan's office (Egan being solicitor for the Department of Justice in connection with customs matters). Egan made representations that Lafferty's zeal was annoying him and his friends, that nothing wrong was done by them, that there was no good reason for refusing acceptance of the money from exporters of liquors to the United States, and then left him with Caplan, one of the most active smugglers of liquor into the United States, who continued the discussion along similar lines. Lafferty stated that money was offered him by Harry Low, an active exporter of liquor from Canada into the United States through the border cities, to refrain from interfering with Low's activities. Low denies having made such an offer.

RECOMMENDATION

That the evidence be reviewed by the proper department, and to take such action as under the circumstances may appear to be desirable.

WITNESSES

A. Dalziel, Volume X, Windsor, page 16,716.
 A. Dalziel, Volume XII, Windsor, page 16,981.
 T. H. Yates, Volume X, Windsor, page 16,717.
 T. H. Yates, Volume XII, Windsor, page 16,991.
 W. B. Mullins, Volume X, Windsor, page 16,718.
 G. Somerton, Volume X, Windsor, page 16,719.
 Mr. Rodd, Volume X, Windsor, page 16,733.
 C. H. Bailey, Volume X, Windsor, page 16,760.
 M. Allen, Volume X, Windsor, page 16,762.
 M. Allen, Volume XII, Windsor, page 16,978.
 M. Pardo, Volume XII, Windsor, page 16,978.

PRAIRIE DRUG COMPANY LIMITED AND REGINA WINE AND SPIRIT COMPANY

These two companies have been organized by the same parties for the sale of liquor. The Prairie Drug Company was incorporated in 1920 to carry on the wholesale drug business. On the 27th of June, 1921, the directors were Masterman, Gorman, Robins and P. Rodriguez, all of Regina, and on the 13th of July, 1922, these were succeeded by Harry Rabinovitch and Mayer Chechik of Regina and the return for that year was reported by the company as wholesale exporters of liquor.

Regina Wine and Spirit Limited was incorporated in 1920. The first directors were closely related to some of the directors of the Prairie Drug Company. The control of the company appears to have been in the hands of the same parties.

The Prairie Drug Company obtained a permit from the Saskatchewan Government under the Saskatchewan Liquor Law to store liquor for sale, for medicinal, scientific and other non-beverage purposes but it appears they had the intent of using the bond for the storage of liquor to be sold for beverage purposes.

The Regina Wine and Spirit Company conducted an export liquor business at Regina and certain border towns in Saskatchewan. They compounded, labelled and sold liquors on a wholesale scale without a license and contrary to sections 187 and 196 (inclusive) of the Excise Act; and in violation of the provisions of the Food and Drug Acts 10-11 George V, chapter 27, and the regulations made thereunder. They applied false trade marks and false descrip-

tions to such goods, contrary to the provisions of section 488 of the Criminal Code; they used United States Revenue strip stamps and Scotch liquor labels on goods bottled by them contrary to law.

These companies kept a double set of books and false accounts for the purpose of deceiving the Government as to the extent of their operations and their income. Their cash receipts for sales from July, 1920, to December 31, 1921, exceeded \$2,200,000 and the returns made by them do not show all the profits.

RECOMMENDATION

That the Income Tax Branch of the department review the income tax returns made by these companies in the light of the evidence.

WITNESSES

(Re Prairie Drug Company)

G. H. Carmichael, Volume V, Regina, page 9,036.
 G. H. Carmichael, Volume VII, Regina, page 9,480.
 P. J. Rodriquez, Volume V, Regina, pages 9,037; 9,125.
 Mr. Kliman, Volume V, Regina, page 9,055.
 Mr. Kliman, Volume VI, Regina, page 9,317.
 Mr. Andrews, Volume V, Regina, page 9,058.
 J. H. Spooner, Volume V, Regina, page 9,059.
 J. B. Shaw, Volume V, Regina, page 9,083.
 M. O'Connell, Volume V, Regina, page 9,110.
 M. Chechik, Volume V, Regina, page 9,127.
 W. Howell, Volume V, Regina, page 9,172.
 A. Code, Volume V, Regina, page 9,174.
 A. Code, Volume XI, Winnipeg, page 12,042.
 W. Denton, Volume VII, Regina, page 9,558.
 A. T. Livingstone, Volume VI, Regina, page 9,125.
 A. H. Ritchie, Volume VI, Regina, page 9,220.
 C. Knowles, Volume VI, Regina, page 9,233.
 J. Cromb, Volume VI, Regina, pages 9,375; 9,262.
 J. L. Salterio, Volume XI, Winnipeg, page 12,161.

(Re Regina Wine and Spirit Company)

M. Samovitch, Volume VI, Regina, page 9,279.
 G. H. Carmichael, Volume VII, Regina, page 9,480.
 A. Code, Volume XI, Winnipeg, page 12,042.
 P. Rodriquez, Volume V, Regina, page 9,037.
 P. Rodriquez, Volume XII, Winnipeg, page 12,213.
 Moses Chechik, Volume V, Regina, page 9,127.
 W. Denton, Volume V, Regina, page 9,178.
 H. Bronfman, Volume VIa, Ottawa, page 23,187.
 M. Chechik, Volume IXa, Ottawa, page 23,805.
 G. W. Taylor, Volume IXa, Ottawa, page 23,866.
 EXHIBITS Nos. 355, 356, 360, 418, 504, 509 and 1089.

BRONFMAN INTERESTS

We have dealt in this report with the activities of several firms, syndicates or companies owned or controlled by members of the Bronfman family, so far as the scope of our inquiry warrants. It would appear, however, to be incumbent on us to consider matters of a general character not related specially to any one concern, but arising out of the combined concerns.

This has special reference to matters concerning income tax and sales tax. The evidence indicates that none of this group ever filed any income tax returns until 1921, when a demand was made by the department.

In answer to this demand, Harry Bronfman made an arrangement with the officials of the Income Tax Branch whereby an arbitrary assessment of \$200,000 (including interest on arrears) was levied upon eight members of the Bronfman family in respect of the income obtained or accrued from the various Bronfman interests during the years 1917, 1918, 1919, 1920 and 1921, but with respect to the year 1921, it purported to cover only the profits from dealing in liquor then in stock.

So far as it deals or purports to deal with the income for 1921, this arrangement would appear to be without any statutory authority, as the year was not then terminated, and the War Income Tax Act does not appear to provide for or contemplate any assessments or adjustments being made in advance.

No further income taxes were paid in respect of the profits earned from the stocks of liquor on hand on September 9, 1921, during 1922 or subsequent years.

It was admitted by Harry Bronfman in his evidence that none of the firms or companies in which this group of individuals was interested had made any returns or payment of taxes under "The Business Profits War Tax Act, 1916" which was in force during part of the periods during which these concerns operated apparently at a profit.

This report is to be read in connection with the reports on the following syndicates or companies with which the Bronfman family are identified, namely:—

Canada Drug Company.
Yorkton Distributors.
The Dominion Distributors.
Gainsborough Liquors Limited.
Gainsborough Liquor Company.
Atlantic Import Company.
Atlas Shipping Company.
Regina Wine & Spirit Co. Limited.

RECOMMENDATIONS

(1) That the Income Tax Branch review the whole matters involved and take action to recover all arrears due by the parties interested;

(2) That the department take action to recover any arrears of taxes due by the parties mentioned under "The Business Profits War Tax Act 1916."

CANADA DRUGS LIMITED

This company commenced its operations in Yorkton, Saskatchewan, in April, 1921. It secured a permit from the provincial authorities for the sale of alcohol for medicinal or scientific or mechanical purposes and obtained, from the Dominion Government, a license for a bonded warehouse.

The company was never engaged in the drug business, but confined its activities to the sale of alcohol in the western provinces and to purchasers from the United States.

The evidence shows that the company imported from the United States about 300,000 gallons of alcohol, brought it to Yorkton, and had it compounded and bottled, and labelled the compound as Scotch whisky with labels not approved by the department according to the Excise Act, thus giving a false description of the contents therein.

In July, 1921, the business of the company was transferred to the Dominion Distributors, with headquarters at Regina, Sask.

This report is to be used in conjunction with the report on other concerns owned or controlled by the Bronfman interests.

WITNESSES

G. H. Carmichael, Volume VII, Regina, page 9,480.

P. Dallin, Volume VII, Regina, page 9,556.

H. Bronfman, Volume IVa, Ottawa, page 22,975.

H. Bronfman, Volume VIa, Ottawa, page 23,187.

EXHIBITS Nos. 359, 362 and 503.

YORKTON DISTRIBUTORS

This company or syndicate was owned or controlled by members of the Bronfman family. An allied company, the Canada Pure Drug Company, had a licensed bond at its warehouse in the town of Yorkton in the province of Saskatchewan, and the Yorkton Distributors used this bonded warehouse for the purpose of its business.

For part of its existence it was engaged in the business of wholesale liquor dealers, and in addition exported large quantities of liquor to the United States, having several branch offices at or near the international boundary. The company afterwards removed its goods to Regina and became merged in a company known as the Dominion Distributors, which company is reported upon elsewhere.

The evidence adduced before us shows that the Yorkton Distributors compounded liquors, although it had not a compounders' license, and was therefore guilty of an infraction of section 191 of the Excise Act. It also bottled liquors and applied to the bottles labels indicating that they contained Scotch whisky of a certain brand, whereas in fact it was not Scotch whisky, and was not manufactured by the firm whose name appeared on the labels. In most cases these names of firms were fictitious. In our view this labelling was done for the sole purpose of misleading the customers and would appear to be in contravention of section 186 of the Excise Act.

As already stated the evidence indicates that this company or syndicate was guilty of many infractions of the Excise Act, but apparently the limitations respecting prosecutions for such offences would bar convictions, and in view of that we make no recommendations but merely cite the facts as part of the history of the various concerns owned or controlled by members of the Bronfman family.

WITNESSES

R. E. A. Leach, Volume IX, Winnipeg, page 11,778.

C. Knowles, Volume IX, Winnipeg, page 11,784.

H. Bronfman, Volume V-A, Ottawa, page 23,005.

H. Bronfman, Volume IV-A, Ottawa, page 22,975.

H. Bronfman, Volume VI-A, Ottawa, page 23,187.

A. Pyper, Volume VI-A, Ottawa, page 23,374.

EXHIBITS Nos. 418 and 421.

DOMINION DISTRIBUTORS

This is a firm or syndicate composed of and controlled by members of the Bronfman family, and a group represented by one Rabinovitch. It carried on the business of exporting liquors, and the evidence indicated that a very large business was done in exporting liquors to the United States. Inspector Knowles, then of the Department of Excise, made a seizure on the premises of this firm of a large number of labels, not authorized by the department.

He also found the firm was engaged in compounding liquors without a license. The evidence pointed to a practice of using labels improperly.

As these contraventions of the Customs and Excise Acts are barred from prosecution by virtue of the limitation clauses of those Acts, we do not consider it proper that we should recommend any action in this regard.

We are reporting upon the operations of this firm as it is closely related or allied with firms or corporations which are owned or controlled by members of the Bronfman family.

WITNESSES

C. P. Blair, Volume VI-A, Ottawa, page 23,242.
 G. W. Taylor, Volume VI-A, Ottawa, page 23,206.
 C. Knowles, Volume IX, Winnipeg, page 11,784.
 A. Code, Volume XI, Winnipeg, page 12,042.
 P. J. Rodriguez, Volume V, Regina, page 9,037.
 M. Chechik, Volume V, Regina, page 9,127.
 S. Goldston, Volume IV, Regina, page 8,930.
 A. Bronfman, Volume V, Halifax, page 21,990.
 H. Bronfman, Volume IV-A, Ottawa, page 22,975.
 H. Bronfman, Volume VI-A, Ottawa, page 23,260.
 H. Bronfman, Volume V-A, Ottawa, page 23,005.
 R. R. Farrow, Volume VI-A, Ottawa, page 23,302.
 A. Bronfman, Volume VI-A, Ottawa, page 23,349.
 S. Bronfman, Volume VI-A, Ottawa, page 23,355.
 W. H. Reed, Volume VI-A, Ottawa, page 23,356.
 N. H. Taylor, Volume VI-A, Ottawa, page 23,375.
 EXHIBITS Nos. 359, 481 to 490 inclusive; 436, 497; and 1058.

GAINSBOROUGH LIQUORS LIMITED, AND GAINSBOROUGH LIQUOR COMPANY

This firm and this company carried on business at Gainsborough, in the province of Saskatchewan, as exporters of liquor. In connection with the operations of these concerns, Inspector Knowles, of the Excise Department, made seizures of goods en route for export to the United States on the ground that the automobiles or trucks in which the liquors were laden had not reported to Customs on their entry into Canada, and were used for business purposes in Canada.

It was alleged by Inspector Knowles that in connection with the seizures made by him, Harry Bronfman, who was then the directing spirit of the Gainsborough Liquor Company and the Dominion Distributors, on more than one occasion offered him a bribe to disregard his duties and to desist from further interference with the operations of the firms or syndicates with which Bronfman was identified. Strong corroborative evidence was adduced before us in support of the testimony given by Inspector Knowles, and in our view a *prima facie* case was made out sufficient to warrant prosecution being entered against Harry Bronfman for his alleged offence.

RECOMMENDATION

That prosecution be instituted against Harry Bronfman for the alleged bribery of Inspector Knowles.

WITNESSES

H. Bronfman, Volume IVa, Ottawa, page 22,975.
 H. Bronfman, Volume VIa, Ottawa, page 23,260.
 M. Heppner, Volume VIa, Ottawa, page 23,305.
 E. Engel, Volume VIa, Ottawa, page 23,331.
 C. Knowles, Volume IX, Winnipeg, page 11,784.
 C. Knowles, Volume X, Winnipeg, page 11,855.
 A. G. Pyper, Volume X, Winnipeg, page 12,008.
 A. G. Pyper, Volume VIa, Ottawa, page 23,374.
 Wm. Vaughan, Volume X, Ottawa, page 12,018.
 EXHIBITS Nos. 478 and 479.

ATLAS SHIPPING COMPANY

This company was incorporated to take the place of the Atlantic Import Company Limited, and has its head office at Halifax, where it operates a bonded warehouse.

The company made several shipments of liquor from the port of Halifax under bonds for delivery at the ports of destination named in the export entry, which were located in the West Indies and Central America. Landing certificates were afterwards produced to customs to have the bonds cancelled, and in some cases the department, acting on such landing certificates, cancelled the bonds. The evidence indicates that many of these landing certificates were not genuine.

RECOMMENDATION

That the same action be taken as is recommended in the report on the Dominion Gresham Guarantee and Casualty Company.

WITNESSES

L. F. McCaughy, Volume XVIII, Toronto, page 18,234.
 D. Piche, Volume II, Windsor, page 15,460.
 F. F. Scherer, Volume II, Windsor, page 15,494.
 S. J. Lowe, Volume VII, Windsor, page 16,300.
 C. A. Savard, Volume VIII, Windsor, page 16,400.
 Harry Low, Volume VIII, Windsor, page 16,522.
 M. Nathanson, Volume XI, Windsor, page 16,964.
 W. C. Acker, Volume III, Halifax, page 21,547.
 B. Aaron, Volume VI, Halifax, page 22,045.
 B. Aaron, Volume V, Halifax, page 21,984.
 A. E. Nash, Volume VI, Halifax, page 22,084.
 S. Bronfman, Volume VI, Halifax, page 22,098.
 R. Welsh, Volume IIa, Ottawa, page 22,438.
 H. Bronfman, Volume IVa, Ottawa, page 22,975.
 A. Bronfman, Volume Va, Ottawa, page 23,082.
 EXHIBITS Nos. 992, 1009, 1053 and 1054.

THE ATLANTIC IMPORT COMPANY LIMITED

This is an incorporated company carrying on business at the city of Halifax as an exporter of liquor. It procured a license for a bonded warehouse in January, 1924, and operated for some time thereafter. Subsequently the Atlas Shipping Company Limited, under an arrangement with the Atlantic Import Company, took advantage of the latter's bonded warehouse until the former company secured a bond of its own. Of recent date the control of the Atlantic

Import Company was acquired by certain Montreal interests. At the date of our inquiry the company had a large stock of liquor in bond at the city of Halifax, but as the bonding privileges were withdrawn the liquor is still in warehouse there.

Our auditors were unable to obtain access to the books of this company, and we therefore are unable to report as to any irregularities in connection with the operation of the company. It was stated that the books had been forwarded to Montreal for audit and the same were not forthcoming when our auditors made application to inspect them.

During its term of operations this company exported large quantities of liquor ex-warehouse from the port of Halifax to Havana, Cuba, and some central American countries. It would appear that alleged landing certificates were furnished and the bonds cancelled in respect of all these shipments, but the evidence given before us establishes the fact that many of the vessels carrying these shipments never discharged their cargo at the point of destination named in the entry, but were diverted to other places, presumably chiefly to the United States, and points to the conclusion that the landing certificates were not genuine.

RECOMMENDATIONS

(1) That the same action be taken as recommended in the report on the Dominion Gresham Guarantee Casualty Company.

(2) That the evidence be transmitted to the Department of National Revenue for its consideration and action.

WITNESSES

- A. B. Brodie, Volume V-A, Ottawa, page 23,121.
- C. Grundy, Volume I, Halifax, page 21,251.
- E. L. R. Legg, Volume I, Halifax, page 21,252.
- W. C. Acker, Volume III, Halifax, page 21,566.
- B. Aaron, Volume V, Halifax, page 21,987, 22,008.
- A. Bronfman, Volume V and VI, Halifax, page 21,990.
- S. Bronfman, Volume VI, Halifax, page 22,098.
- R. Welch, Volume II-A, Ottawa, page 22,380.
- H. Bronfman, Volume IV-A, Ottawa, page 22,975.
- A. Bronfman, Volume V-A, Ottawa, page 23,101.
- EXHIBITS Nos. 964, 992, 994, 1009 and 1025.

ROCCO PERRI, BESSIE PERRI, OR SPARKMAN

Rocco Perri and Bessie Perri, his alleged wife, have been living in Hamilton, Ont., for many years. They have been engaged in the liquor trade on a very large scale, purchasing their stock from different breweries and distilleries. The sales were made in Canada, partly for consumption therein, and partly to be smuggled into the United States.

These two parties gave evidence which was proved to be false, especially in connection with their bank accounts.

The commission has recommended prosecution for perjury and action has been taken in consequence.

These parties have made no income tax returns although they appear to have made large profits.

RECOMMENDATIONS

That the Income Tax Branch of the department review the evidence with a view of collecting the income tax from these parties, and that all appropriate penalties be imposed for failure to make income tax returns.

WITNESSES

(Rocco Perri)

M. Bernardo, Volume V, Toronto, page 13,705.
 M. Bernardo, Volume XV, Toronto, page 14,810.
 G. Hardy, Volume XVII, Toronto, page 15,100.
 J. R. Roberts, Volume XIX, Toronto, page 18,524.
 L. Mascia, Volume XIX, Toronto, page 18,584.
 L. Mascia, Volume V, Hamilton, page 17,815.
 B. Moriarity, Volume III, Hamilton, page 17,466.
 B. Moriarity, Volume V, Hamilton, page 17,775.
 S. J. Lowe, Volume IV, Hamilton, page 17,761.
 M. A. Romeo, Volume V, Hamilton, page 17,797.
 R. Carboni, Volume V, Hamilton, page 17,805.

(Bessie Perri)

H. F. Kuntz, Volume X, Toronto, page 14,104.
 H. E. McCullagh, Volume IX, Toronto, page 13,805.
 M. Bernardo, Volume XV, Toronto, page 14,810.
 R. Game, Volume XVII, Toronto, page 15,069.
 E. B. Pepper, Volume XVII, Toronto, page 15,072.
 D. A. Atkinson, Volume XVII, Toronto, page 15,075.
 A. Mansfield, Volume XVII, Toronto, page 15,076.
 C. Wise, Volume XVII, Toronto, page 15,077.
 G. Hardy, Volume XVII, Toronto, page 15,100.
 B. Moriarity, Volume III, Hamilton, page 17,466.
 S. J. Lowe, Volume IV, Hamilton, page 17,761.
 A. E. Nash, Volume IV, Hamilton, page 17,767, Mon. 1, 18,652.
 M. A. Romeo, Volume V, Hamilton, page 17,797.
 R. Carboni, Volume V, Hamilton, page 17,805.
 L. Mascia, Volume V, Hamilton, page 17,815.
 EXHIBITS NOS. 602-613 inclusive, 836, 783 and 786.

HAROLD MASSEY, *et al.*

This group or syndicate known as the Massey group is composed of ten persons carrying on the business of exporting liquor from Windsor and adjoining municipalities to the United States. Their method of operation was similar to that followed by other groups in the same business.

An account was kept in the bank under the name of the Massey Export Company, which showed that very large transactions had been engaged in by this group or company, and it was admitted by Harold Massey in his evidence that substantial profits had been made, but none of the parties had paid any income tax or made any income tax return in respect of the earnings or profits of this syndicate. The auditors of the commission reported that the books and records of this group were very incomplete and did not afford satisfactory information as to either the volume of business or the profits earned in connection therewith, but, as already stated, a very large volume of business was transacted and substantial profits made in respect of which no income tax was paid.

RECOMMENDATIONS

(1) That action be taken to recover the amount found to be due for arrears of income tax by the members of this group or syndicate;

(2) That the appropriate penalties be imposed for failure to make proper returns of income tax.

WITNESSES

G. A. Scott, Volume IV, Hamilton, page 17,693.
Harry Low, Volume IV, Hamilton, page 17,715.
EXHIBITS Nos. 727 and 866.

O. PAQUETTE & DOMINION EXPORT CO.

O. Paquette is extensively engaged in the export liquor business apparently both on his own account and in association with others under the name of the Dominion Export Company. Those associated with him under the name of the said company are: Harwood, Bengal, Denomy, and one Kleiner. Together they have export docks and warehouses at Ford, La Salle, Riverside and Amherstburg for the convenience of exporting liquors to Detroit. The liquors which these parties handle are largely from the Gooderham and Worts and Hiram Walker and Sons distilleries, and the beer from the Huether Brewery, in which brewery Paquette has an interest. The evidence shows that the operations of these parties over a short period of time resulted in large bank account deposits amounting to over \$2,000,000, and the reasonable inference is that they made very large profits. The only evidence which we secured bearing on this case was obtained from Paquette himself who appeared under subpoena, and from an examination of the bank accounts by our auditors. Paquette was a most unwilling and unsatisfactory witness, and we could get no information from him at all as to his income tax returns or those of his associates.

RECOMMENDATION

That action be taken on the part of the Income Tax Branch of the department both as to Paquette and his associates to recover such taxes as may be found to be due.

WITNESSES

O. Paquette, Volume III, Windsor, page 15,620.
O. Paquette, Volume VI, Windsor, page 16,122.
O. Paquette, Volume IX, Windsor, page 16,627.
O. Paquette, Volume IX, Windsor, page 16,636.
O. Paquette, Volume XII, Windsor, page 17,009.
A. E. Nash, Volume VI, Windsor, page 16,180.

CHARLES A. SAVARD

Charles A. Savard is an American citizen living in Detroit. He has been engaged from 1925 to 1927 inclusive in the handling of liquors at La Salle and on the Detroit river, purchasing liquors from the British Columbia Distillery Company and Joseph Kennedy Limited. For a few months, he handled some Consolidated Distillery's products and Gooderham and Worts' products.

The volume of his business would be about \$5,000,000 a year. Savard claims that all his purchases were smuggled into the United States and sold there either by himself or through some of his associates.

It is unnecessary to review here all that has been disclosed in connection with Savard's activities. It is sufficient to mention that he has never made income tax returns and consequently has paid no income tax.

RECOMMENDATION

That an investigation be made by the department and that the possibility of collecting income tax from this man be considered and if thought expedient that action be taken to recover same.

WITNESSES

H. Massey, Volume IV, Hamilton, page 17,737.
A. E. Nash, Volume X, Vancouver, page 6,925.
C. A. Savard, Volume VIII, Windsor, page 16,400.
" Volume IX, Windsor, page 16,658.
EXHIBIT No. 253.

HOFFMAN & DUNFORD

Messrs. Hoffman and Dunford, acting in partnership, carried on a liquor export business at Kingsville. They purchased beer from Bermuda Export Company Limited, and from Ontario Breweries before the formation of Bermuda Export Company, and also liquors from Consolidated Distilleries, Vancouver Forwarding Company, Joseph Kennedy Limited, Gooderham and Worts, Hiram Walker & Sons Limited.

Liquors were sold by Hoffman & Dunford to customers who took delivery at the dock and paid for them in advance.

The books and records of the firm have been investigated by the commission's auditors, but it was found that they were not complete and it was therefore impossible to estimate either the volume of business or the profits made by the firm which, however, must have been substantial.

It was disclosed by the evidence that the firm made monthly payments of \$50 to sub-collector Pearsall of Kingsville as reported upon elsewhere.

No income tax returns were made in connection with such profits nor were any returns or payments made in respect of sales tax.

RECOMMENDATION

That an investigation be made to ascertain what Income Tax and Sales Tax should be paid under the circumstances and that the same be collected.

WITNESSES

W. C. Dunford, Volume III, Windsor, page 15,549; 15,615.
L. Hoffman, Volume III, Windsor, page 15,587.
A. E. Nash, Volume XII, Windsor, page 17,054.
Harry Lowe, Volume IV, Hamilton, page 17,755.
EXHIBITS Nos. 734, 639, 640 to 652 inclusive.

THE MEXICO EXPORT COMPANY

This is a syndicate carrying on the business of liquor exporters in the city of Windsor and vicinity, and operated at six different warehouses or docks along the frontier at or near Windsor. It is difficult to state precisely who are the members of the firm or syndicate but from their bankers at Windsor, information was gathered that the firm's account was guaranteed by Gordon Rheaume, W. H. Durfey, A. J. Wells and D. Caplan.

The period investigated by the auditors extended from July 27, 1926, until April 14, 1927, during which period the bank account showed receipts of over \$9,000,000.

A few days before the commission opened its sittings in Windsor, the goods of this company were removed from its warehouses, the bank account closed and all cancelled cheques withdrawn, and the principal partners and officials left Canada. During the course of investigation by the auditors of the Commission, certain books of account were also removed from the office, so that in every possible way the investigation was hampered by this syndicate.

It appeared, however, from the evidence that the goods entered for export at the customs or clearance warehouse were very much less in value than the cash sales of the company, so that the inference is strong that a very considerable quantity of liquors was sold in Canada and not exported. In this event, it would appear that a considerable amount would be due by the firms or companies that sold the liquors to this syndicate for sales tax.

We had no definite evidence as to whether or not these people had included the profits derived from this business in their income tax returns, or if they had in fact made any income tax returns, but deem it desirable that the attention of the Income Tax Branch should be called to the operations of this syndicate, so that if the returns have not been made and income tax paid, the necessary steps may be taken to conduct a thorough investigation and assessment of the parties liable for income tax.

RECOMMENDATIONS

(1) That action be taken to recover sales tax due by the firms or companies that sold the liquors to this syndicate;

(2) That the income tax returns, if any, made by members of this syndicate be reviewed and action brought to collect the proper amount of income tax in respect of the transactions herein referred to.

WITNESSES

D. Piche, Volume II, Windsor, page 15,457.
 C. B. Lodge, Volume I, Windsor, page 15,361.
 C. B. Lodge, Volume III, Windsor, page 15,664.
 F. F. Scherer, Volume II, Windsor, page 15,481.
 E. Mason, Volume II, Windsor, page 15,498.
 S. E. M. Taylor, Volume II, Windsor, page 15,512.
 W. C. Dunford, Volume II, Windsor, page 15,530.
 W. C. Dunford, Volume III, Windsor, page 15,549.
 R. Hunter, Volume III, Windsor, page 15,582.
 L. Hoffman, Volume III, Windsor, page 15,587.
 L. L. Sinclair, Volume III, Windsor, page 15,647.
 A. Cowie, Volume III, Windsor, page 15,635.
 W. J. Hume, Volume III, Windsor, page 15,638.
 J. Wilson, Volume III, Windsor, page 15,662.
 R. F. Moore, Volume VI, Windsor, page 16,141.
 H. Palmer, Volume VI, Windsor, page 16,100.
 A. E. Nash, Volume VI, Windsor, page 16,163.
 A. E. Nash, Volume I, Montreal, page 18,646.
 W. Rockett, Volume VI, Windsor, page 16,180.
 D. Caplan, Volume VII, Windsor, page 16,375.
 Harry Low, Volume VIII, Windsor, page 16,532.
 Harry Low, Volume IV, Hamilton, page 17,715.
 Herbert Hatch, Volume IX, Windsor, page 16,615.
 O. Paquette, Volume VI, Windsor, page 16,121.
 EXHIBITS Nos. 654, 655, 656, 666, 729 and 837, 667.

LOW'S GROUP

MARCO LEON, HARRY LOW, S. J. LOW, NATHANSON GROUP

Harry Low, S. J. Low, Marco Leon, Nathanson and some others have been during recent years among the most active dealers in beer and liquor in the Windsor district. Their business has principally been supplying beer and liquor to be smuggled into the United States. Their activities have been personal and through various organizations.

Prior to April, 1925, Harry Low operated as a liquor exporter in the Windsor district. In April, 1925, he associated himself with exporters in handling imported liquors purchased from Consolidated Exporters of Vancouver. In May, 1926, this group merged with another group known as the Harold Massey group. After that merger, a further group headed by Nathanson was merged with the two groups aforesaid under the name of the Vancouver Forwarding Company. In October, 1926, they also commenced business under the name of Wayne Products Company, reported on elsewhere, and the name of Vancouver Forwarding and Shipping Company Limited.

In addition, Harry Low, Leon and Nathanson have handled liquors from Distillers Corporation of Canada and in January, 1927, they were operating as Western Exporters Company and also as Erie Transit Company.

S. J. Low, a member of this group, carried on the liquor export business under the name of Seagram Distillery Agency.

These several groups and syndicates purchased liquors and beer from various distilleries and breweries, and export companies in Canada received them in Canada, resold them in Canada to Canadian and American purchasers who paid therefor and took delivery in Canada.

The evidence adduced creates a strong impression that some of the liquor declared at Customs as being for export was resold in Canada to be consumed therein.

There is also strong evidence that Harry Low attempted to bribe Customs officers and railway employees to facilitate the export of liquors into the United States.

While the records of the operations of the various companies controlled by this group were not available for the whole period of their activities, statements produced by the partners or representatives show the volume of business was very large and that the profits of the different companies were substantial. With the records on hand the suggestion of our auditors is that the Vancouver Forwarding Company, from May 1, 1926, to September 30, 1926, has made profits to \$129,647.75; Low, Leon and Nathanson and Western Exporters from September 1, 1926 to April 30, 1927, \$169,668.73; Wayne Products Company, from November 1, 1926, to March 31, 1927, \$168,716.97 and Seagram Distillery Agency from February 1, 1927, to March 31, 1927, \$6,465.27, being a total of \$474,498.72.

The companies, firms or persons composing these groups have never made income tax returns.

RECOMMENDATION

That appropriate action be taken by the Income Tax Branch of the Department of National Revenue to collect all income tax that may be due by these persons or syndicates.

WITNESSES:

(*Re Marco Leon*)

A. Cowie, Volume XII, Windsor, page 17,000.

(Re Harry Low)

J. H. Marshall, Volume VI, Windsor, page 16,171.

W. Rockett, Volume VI, Windsor, page 16,180.

L. J. Lafferty, Volume X, Windsor, page 16,739.

J. B. Bannon, Volume IX, Windsor, page 16,665.

(Re Low's group)

Harry Low, Volume IV, Hamilton, page 17,715.

A. E. Nash, Volume V, Montreal, page 19,229.

J. H. Clark, Volume V, Montreal, page 19,285.

W. J. Levin, Volume V, Vancouver, page 6,072.

R. Swanson, Volume IV, Vancouver, page 5,062.

(Re Nathanson group)

G. A. Scott, Volume IV, Hamilton, page 17,693.

Harry Low, Volume IV, Hamilton, page 17,715.

EXHIBITS Nos. 207, 653, 713 and 714.

DAVIS LIQUOR COMPANY

This is one of the constituent companies of the Consolidated Exporters Corporation, Limited. It is practically owned by H. J. Davis. Since its absorption by the Consolidated Exporters Corporation Limited, the whole business of the company consists in receiving dividends therefrom and distributing same to the shareholders.

It appears, however, that in the returns made by the company to the Income Tax Department, the expenses that have been deducted are out of all proportion and unwarranted by the activities of the company. For one year, when the dividends of the company were \$90,000, the report shows expenses for over \$67,000 and the president and manager of the company admitted that it was doing no business.

RECOMMENDATION

That the evidence be reviewed by the Income Tax Branch and appropriate action taken.

WITNESSES

H. J. Davis, Volume XVI, Vancouver, page 7,764.

A. E. Nash, Volume XVII, Vancouver, page 7,965.

EXHIBIT No. 301.

CONSOLIDATED EXPORTERS CORPORATION LIMITED

This is an incorporated company carrying on the business of dealers and exporters in liquor at the city of Vancouver, B.C. It represents a consolidation of several companies that had previously carried on a similar business. The company was incorporated on August 25, 1922, but the only complete records of its operations which the auditors for the commission were able to locate were those subsequent to October 1, 1925; consequently, our inquiry deals particularly with the books, records and general operations of the company subsequent to that date. It appears to have been a deliberate policy on the part of the company to destroy the books and records excepting those applicable to the current year. The reason alleged for this procedure was to prevent the United States Government from obtaining information as to the income tax that might possibly be payable by this company in connection with the business transacted by it in the United States.

During the period mentioned the company made three shipments to Central American points of considerable quantities of liquor in bond, and, as required by the Customs Act, bonds were given in the usual form conditioned *inter alia* that the exporters would produce landing certificates. Certain landing certificates were presented by this company in respect to the shipments, but the collector at Vancouver entertaining doubts as to their genuineness, forwarded them to the department at Ottawa. The evidence adduced before us indicates that these goods were never landed at the point of destination, and that the landing certificates were not genuine, or in any event were false and fraudulent.

From the company's records, it appeared that spirits were being bottled and labelled with labels which had not been approved by the department, as required by the Excise Act.

In regard to the income tax, it would appear from the evidence that in making its returns the company deducted large payments for purposes not recognized by the department as being properly deductible; so that there would be a very considerable amount due from this company for income tax for the period mentioned. The method in which the company operated would raise a presumption that a like condition of affairs prevailed from the time it commenced business.

The evidence indicated that this company failed to report certain goods which they claim had been sold for export to the customs authorities.

Our inquiry was hampered very materially by the absence of certain officials of this company who were said to have full information as to its business.

It would appear that this company had a bonded warehouse in connection with its business, and its action in destroying or failing to preserve its books and records impresses us with the desirability of having the existing legislation amended requiring the holders of licenses for bonded warehouses to keep proper books and to retain them for a stated period.

The evidence discloses that the main, if not the entire, object of the existence of this company was for the export of liquor to the United States, and the method employed by it in common with many other companies on the Pacific Coast was to ship liquor ostensibly for Mexico or Central American ports, but in reality destined for the United States.

RECOMMENDATIONS

(1) That the department make further investigations as to the genuineness or otherwise of the landing certificates furnished by this company in connection with the alleged exports of liquor made by this company, and that action be taken to enforce the bonds given in respect thereof in case the landing certificates are found to be false or fraudulent;

(2) That the evidence be transmitted to the Income Tax Branch of the Department in order that the returns of this company may be reviewed in the light of the evidence, and of such further investigation as that branch may make, and that action be taken to collect any arrears that may be found due by this company.

WITNESSES

J. Hunter, Volume III, Victoria, page 1,271.

J. Hunter, Volume XIV, Vancouver, page 7,483.

H. Hughes, Volume III, Victoria, page 1,287.

H. Hughes, Volume IV, Victoria, pages 1,295; 1,345.

G. S. Currie, Volume IV, Victoria, page 1,357.

D. P. Davis, K.C., Volume II, Vancouver, page 1,972.

R. Swanson, Volume IV, Vancouver, page 5,034.

R. Swanson, Volume V, Vancouver, page 5,090.

R. Swanson, Volume XIII, Vancouver, page 7,365.

- R. Swanson, Volume XIV, Vancouver, page 7,400; 7,536.
 W. J. Levin, Volume V, Vancouver, page 6,031.
 G. F. Gyles, Volume VI, Vancouver, page 6,162.
 G. F. Gyles, Volume IX, Vancouver, page 6,808.
 G. F. Gyles, Volume X, Vancouver, page 6,819.
 R. A. Smith, Volume I, Calgary, page 8,019.
 A. E. Nash, Volume II, Calgary, page 8,320.
 A. E. Nash, Volume X, Vancouver, page 6,866.
 A. E. Nash, Volume XII, Toronto, page 14,325.
 Mr. Bonnar, K.C., Volume X, Winnipeg, page 11,967.
 C. Burns, Volume XIII, Toronto, page 14,479.
 C. Burns, Volume XIX, Toronto, page 18,556.
 A. Vandever, Volume II, Niagara Falls, page 18,057.
 J. Randall, Volume VI, Vancouver, page 6,177.
 R. Whitelaw, Volume VIII, Vancouver, page 6,490.
 R. Whitelaw, Volume XVI, Vancouver, page 7,735; 7,810.
 R. Whitelaw, Volume XVII, Vancouver, page 7,986.
 J. P. C. Wright, Volume VIII, Vancouver, page 6,608.
 H. Gates, Volume II, Calgary, page 8,155.
 J. E. Dicks, Volume II, Calgary, page 8,173; 8,274.
 J. Thibideau, Volume VIII, Toronto, page 13,637.
 Harry Low, Volume VIII, Windsor, page 16,524.
 H. W. Brown, Volume II, Calgary, page 8,203.
 P. J. Bedner, Volume II, Calgary, page 8,208.
 D. Piche, Volume II, Windsor, page 15,460.
 S. J. Low, Volume VII, Windsor, page 16,320.
 A. G. Lawrence, Volume IX, Montreal, page 19,964.
 G. A. Allen, Volume VII, Vancouver, page 6,332.
 R. A. Crosby, Volume XIII, Vancouver, page 7,354.
 W. Scott, Volume XIII, Vancouver, page 7,338.
 B. S. Clissold, Volume XIV, Vancouver, page 7,503; 7,473.
 B. C. Clissold, Volume XVI, Vancouver, page 7,805.
 J. J. Murphy, Volume XV, Vancouver, page 7,560.
 J. J. Murphy, Volume XVII, Vancouver, page 8,002.
 H. J. Davis, Volume XVI, Vancouver, page 7,764.
 A. B. McGregor, Volume XVI, Vancouver, page 7,821.
 A. H. Douglas, Volume XVII, Vancouver, page 7,880.
 L. W. Raines, Volume XI, Vancouver, page 7,068.
 F. Parsons, Volume XI, Vancouver, page 7,086.
 H. Ripstein, Volume Ia, Ottawa, page 22,270.
 R. Welsh, Volume IIa, Ottawa, page 22,438.
 W. H. Burgess, Volume IIIa, Ottawa, page 22,611.
 H. Bronfman, Volume IVa, Ottawa, page 22,975.
 S. Bronfman, Volume Va, Ottawa, page 23,062.
 EXHIBITS Nos. 183, 201 to 207 inc., 209, 220-1, 229, 233-4, 242-4, 249, 254-6, 270-2, 279, 286, 301, 317-21, 894-5, 912, 914 and 210.

FRANCO-CANADIAN IMPORT COMPANY LIMITED

This company was incorporated on the 16th day of June, 1923, and is located in Halifax, N.S.

The auditors of the commission investigated the books of the company but this investigation was very incomplete owing to the condition of the records and the absence of all the officials who were conversant with its operations. A number of items remained unexplained.

The business of the company consists in buying and selling alcoholic liquors and wines of various kinds, the operation or joint operation of cargo vessels and the blending and bottling of spirits bought in bulk. Most of the business was transacted between March, 1924, and June, 1925, during which period Harry Rabinovitch was employed as salesman and manager. The company also acted as agent for various foreign manufacturers and bottlers of beer and spirits, selling to various liquor Commissions throughout Canada. It had a bonded warehouse.

The importations from Europe were carried, in most cases, by regular steamship lines, but several voyages were made by carriers partly or completely owned by the company.

The majority of the purchases of the Company were forwarded by the manufacturers or agents in foreign countries accompanied by a through bill of lading to Lima, Peru, via Halifax. Upon arrival at Halifax, the goods were usually warehoused in the company's bond, but, in some cases, they were left in sufferance warehouse and later shipped.

The books of the company show that up to 1926 the purchases amount to \$200,000 and the sales \$215,000. But an examination of the invoices found in its office shows sales for \$441,000 while the declared value at the customs of the goods shipped, amounted to \$951,000.

The financial dealings of the company were carried on largely through bank accounts in the Canadian Bank of Commerce and the Royal Bank of Canada, under the name of "J. B. Mitchell, special account". From the 1st of February, 1921, to April 29, 1927, deposits of \$1,063,946.69 were made.

While the records were being investigated, a number of labels for various brands of liquor were found, together with a large number (50,000) of United States duty paid excise strips evidently forged. These strips were discovered in a desk that was used by H. Rabinovitch and the fact that similar strips were also found in Saskatchewan in possession of a company also managed by H. Rabinovitch, creates a strong impression that these strips were brought to Halifax by him.

Many shipments were made under bond to guarantee that the goods would be landed at the point of destination. The evidence given before the commission warrants the conclusion that most of the landing certificates that were produced to the department to secure the cancellation of these bonds were forged or false; the liquor having been landed not at the point of destination but having been unloaded off the Atlantic coast of the United States.

The company has evidently not paid all the sales tax and Income tax due to the department. It has been impossible to find the officer of the company responsible for its management and the president, who appeared before the commission, claimed to be only a figure head, knowing nothing of the activities of the company.

In November, 1926, the control of the company was transferred to other interests. Since such date it has been inactive and seems only interested now in disposing of a certain quantity of whiskey stored in its bonded warehouse in Halifax.

RECOMMENDATIONS

(1) That the license for a bonded warehouse given to the company be limited to the one purpose of keeping in bond the present stock and that, when such stock is disposed of, the license be cancelled;

(2) That the department continue the investigation of all the business of the company with a view to establish the amount of sales tax and income tax that may be owing by the company;

(3) That an investigation be made as to the genuineness of the landing certificates produced by this company and that appropriate action be taken as recommended in the report on Dominion Gresham Guarantee and Casualty Company.

WITNESSES

Nash, Volume IIa, Ottawa—Report, page 22,555.
 B. O. Moxon, Volume I, Halifax, page 21,250.
 C. Grundy, Volume I, Halifax, page 21,251.
 W. G. Acker, Volume III, Halifax, page 21,512.
 Mrs. B. M. Sproul, Volume IV, Halifax, page 21,774.
 C. F. Young, Volume IV, Halifax, page 21,825.
 T. H. Curry, Volume IV, Halifax, page 21,817.
 J. G. Glassco, Volume IV, Halifax, page 21,767.
 E. L. R. Legg, Volume I, Halifax, page 21,252.
 F. W. Dickie, Volume IV, Halifax, page 21,820.
 J. Mitchell, Volume Ia, Ottawa, page 22,283.
 J. Mitchell, Volume IIa, Ottawa, page 22,560.
 A. Gelinas, Volume Ia, Ottawa, page 22,252.
 R. Welsh, Volume Ia, Ottawa, page 22,380.
 R. Welsh, Volume IIa, Ottawa, page 22,438.
 W. H. Burgess, Volume IIIa, Ottawa, page 22,611.
 EXHIBITS Nos. 960, 961, 962, 963, 967, 969, 992, 1003, 1004.

NATIONAL SHIPPING AND FORWARDING COMPANY LIMITED

This is an incorporated company in which Alberic Gelinas, A. H. Carrillo and J. Durand were the principal shareholders and officials.

During the years 1924, 1925 and 1926, large shipments of liquors were made in the name of this company from the ports of St. John, N.B., and Halifax, N.S. Some of these shipments were made in bond and landing certificates were procured for the release of same.

From the evidence it would appear that the boats carrying these shipments did not deliver the goods at the points of destination, and although the evidence was not sufficiently developed before us to show how and in what manner the landing certificates were procured, yet sufficient was shown to justify us in recommending that further investigation be made by officers of the department.

The banking business of this company was done in the name of Alberic Gelinas, who was said to be the president of the company and the account showed transactions of very considerable amounts which were admitted to be in connection with the dealings of the company, in liquor.

According to the evidence, the company never made any income tax returns nor paid any income tax. It was contended, or suggested, by an officer of the company that the company never did any business but that the business was done by the individual members in the company's name. It was not controverted that very extensive dealings in liquor were carried on, and no income tax returns made in respect of the profits derived therefrom.

RECOMMENDATIONS

(1) That the necessary steps be taken to have an assessment of income tax made and the proper taxes collected;

(2) That further investigation be made by the Department in order to ascertain whether or not the landing certificates furnished to the department were genuine, and if false and fraudulent that action be taken to recover the penalties prescribed by section 237 of the Customs Act.

WITNESSES

L. E. Whittaker, Volume III, St. John, 20,397; 20,905.
 L. E. Whittaker, Volume IV, St. John, 21,064; 21,071.
 T. W. Nowlan, Volume IV, St. John, 21,087.
 Mrs. B. M. Sproul, Volume V, Halifax, 21,809; 21,811.
 B. Aaron, Volume V, Halifax, 22,014.
 A. Bronfman, Volume IV, Halifax, 22,004.
 J. B. Mitchell, Volume Ia, Ottawa, 22,297; 22,298.
 A. Gelinas, Volume Ia, Ottawa, 22,352; 22,380.
 A. Gelinas, Volume Ia, Ottawa, 22,383; 22,385.
 A. H. Carillo, Volume IXa, Ottawa, 23,861; 23,865.
 A. E. Nash, Volume IXa, Ottawa, 23,865.
 EXHIBITS Nos. 951, 1051 and 1090.

THE DOMINION GRESHAM GUARANTEE AND CASUALTY COM-
 PANY AND OTHER SURETY COMPANIES; CONSOLIDATED
 EXPORT CORPORATION, AND OTHER EXPORT
 COMPANIES

From 1922 to 1927 inclusive, large quantities of liquor have been shipped ex-warehouse for export by various companies and individuals, and so entered at customs. No duties have been paid thereon and such liquors have been shipped under the bond of a guaranty company for delivery at point of destination as entered at customs. The evidence shows that large quantities of this liquor never reached the destination named in the export entry and that it was never intended that the liquors should reach such destination. Much of the liquors so exported was delivered off the coast of the United States to be smuggled into that country and a percentage was delivered off the coast of Canada and was smuggled back into Canada. The exporters in such cases made false entry for clearance at customs and false entry inwards was made at customs after delivery of cargo. The evidence shows that in many such shipments, false and fraudulent landing certificates were procured and presented to customs in order to secure release of the bonds covering such shipments and that the bonds were delivered up to the surety companies or cancelled on presentation of and in consequence of such false certificates or other false evidence as to delivery.

The chief ports of export in such cases were Vancouver, B.C., Halifax, N.S., and St. John, N.B. The chief countries of destination, according to export entries made at customs, were: Mexico, Cuba, St. Pierre, Honduras, Nicaragua, Guatemala, Colombia and Salvador.

The principal export companies and individuals exporting such liquors are: B.C. Distillery, Calgary Export Company Limited, Consolidated Export Corporation, Dominion Trading Company Limited, A. L. McLennan, Pacific Coast Storage Company, Davis Liquor Company, National Exporters, Boivin Wilson and Company, Canadian Distributing Company, Security Export Company, W. George Limited, J. J. Bradley Limited, Consolidated Distilleries, Sydney Wine and Spirit Company, Dr. P. A. Thom, Atlantic Import Company, Franco-Canadian Import Company, Scotia Import and Export Company, James Fraser, Wm. King and Furness Withy.

The chief bonding companies that issued bonds covering such shipments are: Canada Accident and Fire Assurance Company, Canadian Surety Company, Dominion Gresham Guarantee and Casualty Company and the General Accident Assurance Company of Canada. The total amount of the bonds so issued, where the landing certificates or other evidence of export is open to question, is: \$15,816,395.08.

Reasonably full particulars of such bonds and such exports including ports of export and destination have been prepared by our auditors and are found in Exhibit No. 1071A.

Under section 237 of the Customs Act, the party so entering goods for export and failing to comply with the obligation involved is liable to a penalty equal to double the duties on importation of such goods. By section 279 of the same Act, any action taken to recover such penalty must be commenced within three years after the date of the offence or after cause of action arises. The bonds entered into by the surety company provide that unless the goods are actually exported to the place provided for in the entry and proof thereof is furnished as required by regulation, the bond is to be and remain in full force and effect.

This matter has in part been already dealt with in Interim Report No. 3. In that report, we stated and here repeat that "we are of opinion that when liquors are cleared for export under bond, greater precaution should be taken to see that real and bona fide landing certificates are furnished within a reasonable time and in default of such being done, we recommend that the bond be rigidly enforced without undue delay."

RECOMMENDATIONS

(1) That action be taken to recover all outstanding bonds covering such shipments;

(2) That further investigation be made as to delivery and as to the truth or falsity of the landing certificates or other evidence of delivery where bonds have been delivered up or cancelled;

(3) That where delivery did not take place as called for, action be taken against the exporters to recover the penalties provided for under section 237 of the Customs Act and subject to the provisions of section 279 aforesaid;

(4) That the evidence be referred to the Department of Justice to ascertain the liability of the bond companies in the last mentioned cases, and, if considered liable, that such companies be proceeded against to recover on such bonds;

(5) We do not recommend action against the bond companies in the case where the bond has been delivered up or cancelled and where the exporter himself could not be proceeded against under section 237 aforesaid.

WITNESSES

A. E. Nash, Volume VIII-A, Ottawa, page 23,652.

C. P. Blair, Volume VIII-A, Ottawa, page 23,637.

R. Welch, Volume I-A, Ottawa, page 22,380.

R. Welch, Volume II-A, Ottawa, pages 22,550, 22,438.

F. Parsons, Volume XI, Vancouver, page 7,086.

W. H. Burgess, Volume III-A, Ottawa, page 22,611.

W. Sandey, Volume III-A, Ottawa, page 22,641.

EXHIBITS Nos. 265, 935, 943, 1,008, 1,023, 1,024, 1,025, 1,026, 1,027, 1,028, 1,031, 1,032, 1,034, 1,035, 1,036, 1,068, 1,071 and 1,072.

Re BERMUDA EXPORT COMPANY

This company was incorporated in Bermuda for the purpose of taking care of the export business of the following breweries:

Bixel Brewing and Malting Company Limited, Brantford.

British American Brewing Company Limited, Windsor.

Carling Export, Brewing and Malting Company Limited, London.

Cosgrave Export Brewery Limited, Toronto.

The Cronmiller and White Brewing and Malting Company Limited, Welland.
 The Hamilton Brewing Association Limited, Hamilton.
 The Kuntz Brewery Limited, Waterloo.
 John Labatt Limited, London.
 O'Keefe's Beverages Limited, Toronto.
 Taylor and Bate Limited, St. Catharines.
 Walkerville Brewery Limited, Walkerville.

The method of operation was for the brewery to ship to this company at its docks at Windsor beer, principally in carload lots, and this company would then deliver the beer to the purchasers who paid cash at one or other of the docks. The cash proceeds of such sales were deposited in the company's bank, and out of such proceeds 75 cents for each carton of two dozen pints, or \$1.25 for each half keg, or 70 cents for each quarter keg sold would be deducted, and the balance of the proceeds remitted to the brewery. Out of the amount retained in respect of such sales, certain deductions for the cost of handling etc., were made, and the company would remit to the brewery the balance. This method of procedure is of importance in computing the amount properly payable by the different breweries as sales tax. The breweries mentioned, so far as appeared in the evidence, computed the amount of their sales upon the basis of the amount first received by them from the Bermuda Export Company, and did not include in the price so received the final balance that was paid to them by the company. For instance: At the time of our investigation the price for beer at the Windsor docks was \$3.25 per case of two dozen pints, out of which \$2.50 was remitted direct to the breweries, and thereafter a considerable portion of the remaining 75 cents was remitted to the breweries, but the latter, so far as the evidence disclosed, computed the sales tax on the price of \$2.50 per case only, which was not in fact the real sale price. This procedure had the undoubted effect of misleading the auditors of the Sales Tax Branch...

GALLONAGE AND SALES TAXES

As already indicated, the sales were made by this company at its docks on the Detroit river to purchasers from the United States, and the goods thus sold were paid for and delivery taken by the purchasers at the said docks; thereby completing the sale in Canada. The Department of National Revenue has taken the attitude in actions brought against certain breweries that under these circumstances the gallonage and sales taxes are properly payable in respect of the beer handled in this manner. If this contention is correct, a very large sum is due by the breweries for whom this company acts as agent. The evidence taken in connection with this company discloses in detail the modus operandi of the companies.

RECOMMENDATION

That the evidence be transmitted to the Department of National Revenue for its information and guidance.

WITNESSES

H. F. Kuntz, Volume X, Toronto, page 14,079.
 C. Burns, Volume XI, Toronto, page 14,250.
 A. E. Nash, Volume XII, Toronto, page 14,315.
 A. E. Nash, Volume V, Windsor, page 15,995.
 A. E. Nash, Volume VII, Windsor, page 16,262.
 J. Cosgrave, Volume XII, Toronto, page 14,384.
 J. Cosgrave, Volume XVIII, Toronto, page 18,285.
 H. M. Burke, Volume XIII, Toronto, page 14,551.
 W. T. Kernahan, Volume XIX, Toronto, page 18,398.

G. Russell, Volume XIX, Toronto, page 18,472.
 G. B. Lodge, Volume I, Windsor, page 15,361.
 F. F. Scherer, Volume II, Windsor, page 15,481.
 S. E. M. Taylor, Volume II, Windsor, page 15,512.
 W. C. Dunford, Volume II, Windsor, page 15,530.
 W. C. Dunford, Volume III, Windsor, page 15,549.
 W. R. Bonds, Volume V, Windsor, page 15,997.
 C. F. Clapp, Volume V, Windsor, page 16,021.
 C. F. Clapp, Volume VII, Windsor, page 16,243.
 E. C. Andrich, Volume VI, Windsor, page 16,192.
 G. V. Stiff, Volume VII, Windsor, page 16,224.
 F. G. Bixel, Volume V, Hamilton, page 17,778.
 E. T. Sandell, Volume I, Niagara Falls, page 17,936.
 A. L. Brooks, Volume I, Niagara Falls, page 18,095.
 L. A. Irion, Volume III, Niagara Falls, page 18,133.
 H. Low, Volume VIII, Windsor, page 16,531.
 EXHIBITS Nos. 576, 670-1, 807.

BIXEL BREWING COMPANY

This company operates a brewery at Brantford, Ont. Since July, 1924, it has produced strong and 4.4 beer. Practically all the company's strong beer was alleged to be sold for export either by the company or through the Bermuda Export Company Limited.

The company has paid generally all sales and gallonage tax on 4.4 beer. However, in its returns, it made certain deductions for transportation and packing which are not allowed according to the department rulings. On this item, the company owes the department \$56.16.

On its sales of strong beer, the company has not paid sales or gallonage tax on the ground that the same do not apply to exports. The amount claimed under this heading is \$10,577.51 to September 30, 1926, for sales tax and \$6,515.72 for gallonage tax.

RECOMMENDATION

That action be taken to recover the amount as aforesaid.

WITNESSES

F. G. Bixel, Volume V, Hamilton, page 17,778.
 Maud Sloan, Volume V, Hamilton, page 17,791.
 A. E. Nash, Volume V, Hamilton, page 17,793.
 J. Spence, Volume I, Hamilton, page 17,232.
 EXHIBITS Nos. 784 a and b, and 785.

THE BRADING BREWERIES LIMITED

This is an incorporated company carrying on the brewing business at the city of Ottawa in the province of Ontario. In the course of its operations during the period from December 1, 1923, to November 30, 1926, this company sold large quantities of beer to customers residing in the province of Ontario but in its sales tax returns did not include the amount of such sales, and therefore did not pay sales tax in respect thereof. It was stated on the company's behalf by one of its officers that the reason for this omission was because it was considered that gallonage and sales taxes were collectible only in respect of beer that was legally sold. This contention appears to be untenable, and in the view of your Commissioners ought not to be acceded to by the Department of National

Revenue. The amount that would be due for sales and gallonage tax in respect of the sales omitted in the company's returns is estimated at \$5,732.04 by the auditors of the commission.

The company also made some export shipments to the United States, and in respect of those shipments no sales or gallonage tax was paid by the company.

From the evidence it appears that this company imported malt in 1924, and the invoice showed a price of 25 cents per pound. If that were the correct price no dumping duty would apply, but the invoice in possession of the company showed that the price to it was 23 cents a pound. If the latter price is correct, then the dumping duty would be chargeable in respect of the importations. This dumping duty was estimated by the auditors at the sum of \$113.92.

RECOMMENDATIONS

(1) That action be taken to collect the amount claimed to be due from this company in respect of sales tax and gallonage tax on beer sold for consumption in Ontario;

(2) That the department take the necessary steps to collect the sales tax and gallonage tax in respect of the alleged export sales of beer by this company when the question of liability shall have been settled by the courts;

(3) That the department take the necessary action to collect the dumping duty due by this company in respect of the importations referred to in this report.

WITNESSES

Joseph Edgar Davies, Volume XVIII, Toronto, page 18,320.

J. Rankin, Volume XVIII, Toronto, page 18,322.

A. E. Nash, Volume XVIII, Toronto, page 18,340.

EXHIBIT No. 800.

B. C. BREWERY 1918 LIMITED

This company carries on business in Vancouver, B.C. and manufactures and sells beer.

The company made certain deductions for containers which are not allowed according to the departmental rulings. The amount in dispute as to this item for the period from June 1, 1922, to September 30, 1926, is \$66,374.39 according to the auditors' report. After September 30, 1926, all sales were made through the Amalgamated Breweries' Agency, with which this company was associated, and the auditors had to examine the records of this agency to ascertain the amount of gallonage and sales taxes payable. As a result of this investigation the total amount appearing to be due to the date of the auditors' report for sales and gallonage taxes (including the amount already mentioned) is \$114,428.21.

In arriving at the amount of its income tax, this company treated as disbursements several large payments for which no proper vouchers were forthcoming, and also several large payments for political contributions, and these do not appear to be properly deductible.

RECOMMENDATIONS

(1) That action be taken to recover the taxes referred to;

(2) That the returns for income tax be reviewed.

WITNESSES

G. W. Twitney, Volume X, Vancouver, page 6,842.

A. E. Nash, Volume X, Vancouver, page 6,866.

A. E. Nash, Volume XVII, Vancouver, page 7,904.

G. Reifel, Volume XVI, Vancouver, page 7,823.

T. H. Kirk, Volume XVI, Vancouver, page 7,861.

EXHIBIT No. 494.

BRITISH AMERICAN BREWING COMPANY LIMITED

This company carries on business at Windsor, Ont., and has largely been engaged in the manufacture and sale of strong beer for export. The export customs entries named one J. House of Detroit, Michigan, and later one H. Johns of the same place as consignee; but the evidence indicates that these names were fictitious, and that in reality sales were effected and delivery made at the docks on the Windsor side of the Detroit river to various persons who came across from Detroit in boats and took delivery.

From January 1, 1925, to July 15, 1926, the company used the name of The Foreign Exporting Company in substitution for its own name as owner and consignor. This company was in reality only a name, having no actual existence. Since July, 1926, the sales for export have been made through the Bermuda Export Company Limited, in accordance with the general agreement entered into with that company and referred to in greater detail elsewhere.

The company during certain periods of its operations paid large sums of money to one W. M. Egan, Barrister, of Windsor, whose position and operations at the time are dealt with more particularly in our report on Egan himself. The officers of the company state that the money paid Egan was partly paid as retaining fees, and largely for campaign purposes. There is, however, a strong suggestion in the evidence that it was paid and demanded by Egan as a protection or security against any interference on Egan's part through the medium of the Customs officials with the company's export trade. The company also during the year 1923 paid monthly sums of \$100 per month to the sub-collector of customs at Sandwich, which the vice-president of the company states were in recognition of special services rendered by the sub-collector in facilitating the export shipments before and after regular office hours. The sub-collector denies that such payments were made. This matter is reported on elsewhere.

A comparison of the production of beer as shown in the mash book with the total gallonage of beer sold shows a difference of approximately 16 per cent of the production figures, which appears to be a large percentage for wastage.

Up to March 1, 1925, the company paid sales tax on all sales made for export, but made certain deductions which are not allowable for sales tax purposes, and there is owing in respect of such deductions \$31,690.87. After March 1, 1925, the company ceased paying sales tax on sales alleged to be made for export, claiming that the tax does not apply to such sales. There is claimed in respect of such sales, up to August 31, 1926, the sum of \$51,509.68.

The gallonage tax on sales so alleged to be made for export of 12½ cents per gallon was paid by the company up to the end of June, 1925, and was then discontinued on the ground that this tax also did not apply to such sales. There is claimed in respect of gallonage tax up to the 31st of August, 1926, \$129,075.57. This makes a total claim against this company up to 31st of August, 1926, of \$212,177.54 after allowing a credit of \$98.58 for certain overpayments.

In addition to the above amount there is a claim for sales tax on such portions of the selling price as were deducted by the Bermuda Export Company Limited.

Our auditors estimate that the total claim for all purposes against the company up to the end of April, 1927, the date of our inquiry, would amount to approximately \$325,000.

RECOMMENDATION

That action be taken to recover the large amount which apparently is owing to the Crown as above outlined.

WITNESSES

A. E. Nash, Volume V, Windsor sittings, page 15,989.
 A. E. Nash, Volume I, Montreal sittings, page 18,646.
 W. R. Bonds, Volume V, Windsor sittings, page 15,997.
 W. R. Bonds, Volume VI, Windsor sittings, page 16,080.
 C. F. Clapp, Volume V, Windsor sittings, page 16,021.
 C. F. Clapp, Volume V, Windsor sittings, page 16,039.
 T. C. Woods, Volume VI, Windsor sittings, page 16,044.
 P. Elgin, Volume VI, Windsor sittings, page 16,062.
 F. Scherer, Volume VI, Windsor sittings, page 16,083.
 L. A. Irion, Volume III, Niagara Falls sittings, page 18,113.
 P. F. Kingsley, Volume III, Montreal sittings, page 18,921.
 R. H. Bernard, Volume IV, Montreal sittings, page 19,204.

CALGARY BREWING AND MALTING COMPANY LIMITED

This company, incorporated in 1912, manufactures beer of various kinds. It owns two breweries: "The Silver Spray Brewery Limited," and "The Golden West Brewery Limited."

The company in computing sales tax has made certain deductions which are not allowed by the department. The exact balance due has not been determined.

RECOMMENDATION

That action be taken to collect all taxes due.

WITNESSES

A. E. Nash, Volume II, Calgary, page 8,320.
 EXHIBIT No. 324.

CAPITAL BREWING COMPANY LIMITED, OTTAWA

The investigation into the affairs of this company, which carried on the brewery business at Ottawa, Ont., does not disclose any serious irregularities. The evidence shows that the sales of the company of $2\frac{1}{2}$ per cent beer exceeded the records of production kept by the brewmaster by some 40,009 gallons. The manager stated in explanation of this discrepancy that it was caused by a dilution process for reducing the alcoholic strength in the original brew to $2\frac{1}{2}$ per cent, which was the percentage that could be legally sold within the province of Ontario. We desire to call the attention of the Excise Branch of the Department of National Revenue to this discrepancy, so that if there are any taxes due in respect of this excess, they may be collected.

SALES TAX

This company did not make sales tax returns for certain export sales or for the charges for bottles (domestic sales) and deducted certain amounts for commissions which are not allowable under the rulings of the department. It apparently did not take into account certain rebates of taxes received from the province of Quebec. However, the company in computing the sales tax neglected to deduct the gallonage tax, the province of Quebec tax, and the Ontario luxury tax, as it was entitled to do; consequently, for the period extending from February 1, 1923, to November 30, 1926, the company overpaid the sales tax to the amount of \$804.29.

GALLONAGE TAX

This company made regular returns of the gallonage tax, including the export sales, but in computing the same a clerical error was made resulting in an overpayment for the period already mentioned of \$111.88. It would therefore appear that in the result, the company overpaid taxes for the period mentioned to the extent of \$916.17.

We think it sufficient to state these findings without any recommendation as, doubtless, the department will take the proper action to adjust the matters mentioned.

WITNESSES

J. Naismith, Volume XIX, Toronto, page 18,510.

A. Desloges, Volume XIX, Toronto, page 18,521.

A. E. Nash, Volume XIX, Toronto, page 18,522.

EXHIBIT No. 816.

THE CARLING EXPORT BREWING AND MALTING COMPANY
LIMITED

The investigation into the affairs and operations of this company was very exhaustive. The company since it commenced operations in 1924 carried on a very large business in the manufacture and alleged export of beer. The main operations in connection with its export business were carried on through ports on the Detroit river. During a certain period, the sales of the company's products were made almost exclusively to one Savard, and in the company's records the price charged to Savard was stated to be \$1.75 per case of two dozen pint bottles, but the evidence disclosed that a sum very much in excess of this price was received for the beer shipped to Savard. This company in common with the other companies that were parties to the agreement with the Bermuda Export Company, credited in their books \$2.50 as the price of the beer handled by that company for this company, whereas, in fact, as has already been pointed out in the report on the Bermuda Export Company, a very considerable amount in excess of this price was received.

The investigation made by the auditors of the commission also reveals that in making the return for sales tax purposes on domestic sales the company made certain deductions which, according to the rulings of the sales tax department, are not allowable, and that in this respect a very substantial sum is due to the department. A like condition of affairs prevails in connection with the amounts paid by the company for gallonage tax on domestic sales, there being also a substantial sum still due on this branch of the company's business. The auditors of the commission also report that in connection with the alleged export sales made by the company certain deductions were made up to May 24, 1924, which are not allowable under the rulings of the department. After the date mentioned, the company did not pay any sales tax on the alleged exports.

The evidence adduced before the commission establishes, in the view of your commissioners, that all the alleged export sales were in fact sales made at points on the Canadian side of the Detroit river and adjoining waters to purchasers from the United States who took delivery and paid for same within Canada, and that the company did not in point of fact export the goods from Canada, but the same were exported by the purchasers. In view of the contention of the department that under such circumstances the sales tax is properly chargeable, as the goods were not exported by the manufacturer, the amount of arrears due in respect of these taxes will be very considerable. Up to September 30, 1926, when the commission's auditors made their investigation, there was due in

respect of this claim approximately \$96,000, and since that date goods of a very considerable value were exported under like conditions. The books of the company also disclose that up to June 30, 1925, a large sum of money, estimated at \$151,175.26, is recorded as being received by the company from United States purchasers for insurance of delivery at the point of final destination, and this amount was not shown in the sales tax returns. There is apparently due in respect thereof the sum of \$7,196.83.

GALLONAGE TAX

It appears that the company paid the gallonage tax on export sales up to July, 1925, but since that date no taxes were paid, although provision for the liability was made in the books of the company. As the question of liability on the part of the breweries to pay gallonage tax under such circumstances is now the subject of litigation, we refrain from expressing any opinion as to whether or not the gallonage tax is properly chargeable against the company, but beg to report that in case such tax is properly chargeable, a very large sum will be due by this company.

INCOME TAX

The reports of the auditors disclose that for the period ending October 31, 1925, the income tax returns made by the company show it had made no profit during that period; but in making up its accounts for this period the company made certain deductions to cover any possible liability in respect of sales and gallonage tax which might be found due in respect of the alleged export shipments. We call this to the attention of the Income Tax Branch, so that in case the sales tax and gallonage tax are found by the court not to be collectible against this company, the income tax return for the period in question may be reviewed, and a proper assessment made.

Your commissioners in pursuance of the powers vested in them under the Order in Council, dated January 14, 1927, whereby they were empowered among other things to "inquire into and report upon all other matters coming under the administration of the Minister of Customs and Excise which affect the public revenue of Canada or relate to the operations of any person or corporation owning, operating, or employed in connection with any business carried on under the provisions of the Excise Act or the Customs Act or any regulation made thereunder, or are incidental or closely related to any of the matters or things hereinbefore or in the said commission mentioned or referred to," investigated the conduct of the officials of this company in the conduct of its business. The evidence produced before us in such investigation establishes in our opinion the fact that Harry Low, managing director of the company, on or about July, 1925, attempted to bribe an employee of the Michigan Central Railway at Windsor to aid and direct the switching and camouflaging of cars of beer of this company and to procure the shipment of same into the United States over the Michigan Central Railway under the pretence that the said cars were in transit cars passing through Canada in bond.

In order to insure the success of these operations, it was necessary to procure customs seals, both of the United States and of Canada, and the necessary customs and shipping documents. According to the evidence, Low stated that he could procure these. The railway employee in question refused the offer but his evidence in that respect throws light upon other shipments made by this company from London. In connection with these latter shipments, convincing evidence was produced before us that several cars of beer shipped by this company from London had been switched in the railway yards at Windsor, Walkerville, or other railway junction points and sent out of Canada camouflaged as some commodity other than beer and as being in transit shipments in bond passing through Canada. These cars had affixed United States and Canadian

customs seals which had been stolen or otherwise unlawfully procured and affixed to the cars, and customs and shipping documents that were forged or otherwise unlawfully procured.

Although there was no direct evidence that the company had authorized any of its officials or employees to do these illegal acts, yet the whole circumstances lead to the irresistible conclusion that as the company was profiting from these fraudulent devices, some of the officials of the company must have had knowledge of the same and connived therein and the management should be held responsible for such operations. The improper practices carried on by this company were so extensive and of such a serious nature as, in our opinion, to warrant drastic action being taken to prevent repetition of the same, and we feel fully warranted in recommending that the license held by this company be not renewed, but withheld so long as the present management remain in control or office. Your commissioners do not feel fully justified in recommending that the license be refused indefinitely, as it might imperil the interests of some shareholders who were entirely innocent of and not connected in any way with any of the improper practices already referred to.

RECOMMENDATIONS

- (1) That action be taken to recover the amount due for sales and gallonage tax;
- (2) That the evidence be referred to the Income Tax Branch to make the necessary review and reassessment of the income tax;
- (3) That until a complete change in the management of this company shall have been effected, the license now held by this company under the provisions of the Excise Act be refused and withheld.

WITNESSES

C. Burns, Volume XI, Toronto, page 14,250.
 C. Burns, Volume XIII, Toronto, page 14,467.
 C. Burns, Volume XIX, Toronto, page 18,553.
 W. A. C. Lindsay, Volume XII, Toronto, page 14,287.
 N. D. Stuart, Volume XII, Toronto, page 14,302.
 J. G. Morrison, Volume XII, Toronto, page 14,330.
 J. G. Morrison, Volume XIII, Toronto, 14,461.
 J. Hennesy, Volume XIII, Toronto, page 14,465.
 W. A. Jacques, Volume IV, Windsor, page 15,807.
 W. A. Jacques, Volume VIII, Windsor, page 16,487.
 A. E. Nash, Volume VII, Windsor, page 16,266.
 A. E. Nash, Volume I, Montreal, page 18,650.
 S. J. Low, Volume VII, Windsor, page 16,300.
 J. B. Bannon, Volume VII, Windsor, page 16,372.
 J. B. Bannon, Volume VIII, Windsor, page 16,476.
 Harry Low, Volume VIII, Windsor, page 16,522.
 L. J. Lafferty, Volume X, Windsor, page 16,739.
 E. J. Duggan, Volume VIII, Windsor, page 16,425.
 S. Wallace, Volume VIII, Windsor, page 16,497.
 S. Harris, Volume VIII, Windsor, page 16,510.
 C. O. Wilton, Volume VIII, Windsor, page 16,430.
 J. G. Gibson, Volume VIII, Windsor, page 16,432.
 C. Furby, Volume VIII, Windsor, page 16,435.
 F. H. Yount, Volume VIII, Windsor, page 16,439.
 R. Burns, Volume VIII, Windsor, page 16,446.

W. Graham, Volume VIII, Windsor, page 16,476.
C. Tarn, Volume VIII, Windsor, page 16,482.
J. R. Mickle, Volume VIII, Windsor, page 16,483.
W. C. Dunford, Volume III, Windsor, page 15,549.
A. F. Healy, Volume III, Hamilton, page 17,409.
EXHIBITS Nos. 834, 725 and 672 to 689 inclusive.

THE COSGRAVE EXPORT BREWERY COMPANY LIMITED

This company carries on the business of brewers at the city of Toronto in the province of Ontario. An investigation of the affairs of this company shows that from its incorporation up to the date of the inquiry, the company had been manufacturing strong beer for sale and selling a very considerable quantity of same in the province of Ontario. The method adopted was to have a written order, signed by an alleged agent in the United States, sent in to the brewery with a notation on the order showing the name of the hotel in the city of Toronto at which it was to be delivered, and delivery was made in accordance with such directions. In order to prevent seizure of the beer by the provincial license authorities, B.13's were made out by the company or its employees, in most cases by an employee of the company acting in complicity with the president and manager, to cover the shipment to the Toronto hotels. These documents were sworn to in most cases by the employee and were obviously false. All parties concerned well knew it was never intended to export the goods mentioned in the B.13's.

This is a very typical illustration of the abuses incident to the indiscriminate use of these documents (B.13's) and we are of the opinion that severe penalties should be imposed on parties using these forms improperly. If the present legislation is not sufficiently explicit to cover this offence, legislation should be introduced to have it declared illegal and subject to appropriate penalties.

SALES TAX

The company from its organization up to May 31, 1926, filed returns and paid sales tax on both domestic and export sales but after the said date, it discontinued the payment of taxes on alleged export sales pending the settlement of the test case now in the courts. In the books of the company, sales and deliveries to the different hotels in Toronto are recorded as exports but in any event sales tax would appear to be payable in respect of the same. In the event of it being held that sales tax is payable in respect of the alleged exports, a sum in excess of \$4,000 would be due by this company. The investigation further disclosed that in computing the sales tax, the company had made certain deductions contrary to the rulings of the department so that a considerable amount appears to be due by the company upon the basis of the returns made.

GALLONAGE TAX

The company filed returns and paid excise tax on its products up to January 31, 1926, but from that date discontinued payment of this tax on the alleged export sales pending the decision in the test case already referred to. As already stated there is no ground for withholding payment of this tax on the goods which although alleged to be for export were in fact sold to customers in Toronto, so that, in any event, a very substantial sum will be due in respect of such sales. Should it be decided that the alleged exportations are subject to gallonage tax, a very large sum will be due by this company.

An audit of the books of this company discloses the fact that certain moneys were deducted from the gross earnings of the company which were paid as con-

tributions to campaign funds, in respect of certain plebiscites taken in the province of Ontario. There does not appear to be any justification for these deductions and as these were improper, there would be due considerable arrears of income tax.

RECOMMENDATIONS

(1) That appropriate action be taken to recover the sales and gallongage taxes due;

(2) That the Income Tax Branch be requested to review the income tax returns filed in the light of the evidence produced before this Commission and to take the necessary proceedings to collect the arrears of income tax properly due.

WITNESSES

J. Cosgrave, Volume XII, Toronto, page 14,384.

J. J. Devine, Volume XII, Toronto, page 14,413.

J. E. Kelly, Volume XII, Toronto, page 14,420.

G. Jephcott, Volume XII, Toronto, page 14,421.

EXHIBITS Nos. 415, 583, 584 and 585.

THE CRONMILLER AND WHITE BREWING AND MALTING COMPANY LIMITED

This company carries on business at Welland, Ont., and is engaged in the manufacture and sale of beer for home consumption, and strong beer for export. Much the greater proportion of the strong beer sold for export is delivered into small boats at the brewery, the remainder being exported through the agency of the Bermuda Export Company. Sales for delivery into boats at the brewery are apparently paid for in cash before or at the time of delivery.

The company has paid both gallongage and sales taxes on all sales of 4.4 beer except \$279.04 in respect of certain unauthorized deductions. It has also paid gallongage tax on all beer sold for export; but since November 30, 1925, it has not paid the tax on sales purporting to be for export, apparently claiming that such tax does not apply thereto. There is due the Government on sales tax up to September 30, 1926, according to the rulings of the department, \$10,411.23.

RECOMMENDATION

That action be taken for the recovery of the above amount, and any further sum that may have accrued due since September 30, 1926.

WITNESSES

A. L. Brooks, Volume II, Niagara Falls, page 18,095.

G. M. Grabhill, Volume II, Niagara Falls, page 18,098.

A. E. Nash, Volume II, Niagara Falls, page 18,101.

EXHIBIT No. 793.

DOMINION BREWERY COMPANY

This company operates a brewery in Toronto, Ont. Its books and records were investigated for a period of three years ending December 31, 1926.

The company has sent in returns in good faith with reference to sales tax but the mode of computation is not that approved by the department. Deductions were made with regard to containers, transportation and packing which do not appear to be according to the rulings of the department.

The gallonage tax was paid regularly on domestic sales but in respect of sales alleged by the company to be export sales, the same was not paid.

From the auditors' report, the amount of sales tax due on domestic sales up to December 1, 1926, is \$518.29; on export sales, \$164.50; on gallonage tax, \$355.05, making a total of \$1,037.84.

RECOMMENDATION

That the department collect sales and gallonage taxes due by the company.

WITNESSES

S. J. Low, Volume XII, Toronto, page 14,375.

A. E. Nash, Volume XII, Toronto, page 14,379.

G. Russell, Volume III, Hamilton, page 17,511.

EXHIBIT No. 581.

THE DREWRY'S LIMITED

This company carries on business at Winnipeg, Man., and was incorporated and took over the business of Drewry's Limited. The investigation conducted by our auditors of the operations of this company covered a period from January 1, 1924, to September 30, 1926, but as the records of Drewry's Limited had been destroyed, no investigation was made of its business.

The present company makes both temperance and strong beer and sells chiefly in Manitoba, Saskatchewan and Ontario. Investigation by our auditors disclosed that the company has overpaid its sales taxes during the period mentioned in the amount of \$8,942.87, and that there is owing during the same period in respect of gallonage tax \$547.15, leaving a net overpayment of \$8,395.72. This amount is also subject to any deductions that should be made for tax on rebates or commission deducted from sales in 1925 and 1926. The evidence shows that large sums of money have been disbursed by this company for which no proper vouchers were furnished, and concerning which the evidence and explanations offered were not very satisfactory. These amounts were deducted by the company in making its income tax returns, whereas the evidence would indicate that such deductions should not have been made.

RECOMMENDATION

That a proper adjustment of sales tax be made and that income tax returns be reviewed.

WITNESSES

G. M. Black, Volume XI, Winnipeg, page 12,081, 12,111.

L. F. McCarthy, Volume XI, Winnipeg, page 12,114.

A. E. Nash, Volume XI, Winnipeg, page 12,131.

EXHIBIT No. 498.

EDMONTON BREWING AND MALTING COMPANY LIMITED

This company operates a brewery at Edmonton, Alberta.

The company appears to have paid in full the sales and gallonage taxes with the exception of a claim for taxes on price difference, the exact amount of which can only be ascertained after further investigation.

There seems to be a slight overpayment on gallonage tax.

RECOMMENDATION

That the department continue the investigation with regard to the claim for taxes on price difference and collect whatever may be found due.

WITNESSES

A. E. Nash, Volume II, Calgary, page 8,320.
EXHIBIT No. 324.

EMPIRE BREWING COMPANY

This company has its head office in the city of Brandon, Man. It manufactures 2.5 per cent and strong beer and porter. The sales of its products were made in Manitoba and Saskatchewan and none seem to have been made for exportation.

From the 1st of April, 1922, to the 31st of October, 1926, the company has overpaid for sales taxes a sum of \$5,903.26 and for gallonage tax \$280.83, forming a total of \$6,184.09.

This firm has been fined twice for infraction of the regulations of the Excise Department with regard to labels.

RECOMMENDATION

That proper action be taken by the department to adjust the matters aforesaid.

WITNESSES

A. E. Nash, Volume XI, Winnipeg, page 12,160.
R. H. Foulds, Volume XI, Winnipeg, page 12,156.
EXHIBIT No. 502.

THE FORT FRANCIS BREWING CO. LTD.

There is nothing to report with reference to this company except that up to December 31, 1926, they have overpaid in respect of sales and gallonage taxes combined the sum of \$486.90.

RECOMMENDATION

That adjustments be made with reference to such overpayments as may appear necessary.

WITNESSES

A. E. Nash, Volume XVII, Toronto, page 15,181.
EXHIBIT No. 620.

FRONTENAC BREWERIES LIMITED

This company carries on business in Montreal and manufactures and sells beer and ale both for domestic consumption and for export. The investigations made with reference to the operations of this company covered a period from January 1, 1924, to December 31, 1926. It was disclosed that excise duty was paid on all malt imported by the company except one consignment received in 1924, on which the amount of duty involved is \$2,260.50. Except for the months of June, July and August, 1924, the company has paid both sales and gallonage taxes on all sales made for export to the United States. The amounts owing in respect of such sales and gallonage taxes for the three months in question are, according to our auditors' report,—

Sales tax.. . . .	\$ 2,840 30
Gallonage tax.. . . .	\$13,292 90

On domestic sales made by the company, there have been underpayments of sales tax amounting to \$1,418.90. There were also underpayments of sales tax in respect of containers, etc., amounting to \$31,410.80. On the other hand, there were certain overpayments made by the company amounting to \$10,996.31, thus leaving a balance due on sales and gallonage taxes amounting to \$37,965.59.

The evidence indicates that this company shipped or was a party to the shipping of large quantities of its product to New Brunswick, Nova Scotia and the United States by railway cars, and that for such purpose, false bills of lading were used representing the beer so shipped as some other commodity. These shipments took place prior to the coming into effect of subsection 2 of section 412 of the Criminal Code as enacted by section 7 of chapter 38 of the Statutes of 1925, which makes shipments of this character a criminal offence punishable with imprisonment. There is no evidence that any such practices prevailed subsequent to the coming into effect of such legislation.

RECOMMENDATION

That action be taken to recover the amounts owing as above indicated, if not already paid. We wish to add that counsel for the company has stated that all taxes above referred to have quite recently been fully paid.

WITNESSES

J. K. Savage, Volume III, Montreal, page 19,021.
 J. K. Savage, Volume VI, Montreal, page 19,525.
 J. C. Buckles, Volume VI, Montreal, page 19,529.
 H. Gauthier, Volume VI, Montreal, page 19,550.
 W. LaFrance, Volume VI, Montreal, page 19,551; 19,584.
 W. LaFrance, Volume IX, Montreal, page 20,013.
 J. E. Lahaise, Volume VI, Montreal, page 19,561.
 J. A. DeLalanne, Volume VII, Montreal, page 19,691.
 T. McAniff, Volume VIII, Montreal, page 19,865.
 T. McAniff, Volume IX, Montreal, page 20,011.
 F. Syme, Volume VIII, Montreal, page 19,875.
 J. J. Sevigny, Volume VIII, Montreal, page 19,885.
 P. Beaubien, Volume VIII, Montreal, page 19,886.
 J. E. Doyle, Volume IX, Montreal, page 20,013.
 EXHIBITS Nos. 869, 870, 871, 872, 873, 874, 882 and 883.

GRANT'S SPRING BREWERY COMPANY LIMITED

This company carries on business at Hamilton, Ont., and manufactures for domestic sale and export principally strong beer. Except during the year 1925, the company has done very little business in the way of selling for export, the reason for this apparently being to avoid conflict with the export business carried on by the Hamilton Brewing Association, an associated company. The great bulk of the company's business has been, and still is, in strong beer sold at the brewery and delivered by trucks in the city of Hamilton and at other points in Ontario.

Owing to many of the records of this company having been destroyed, our auditors found difficulty in ascertaining the facts concerning its operations. It appears to have been the policy of the company to destroy its sales slips in connection with sales made at the brewery every month and also its original records with reference to export sales periodically. The investigations made by

our auditors covered only to the 31st of August, 1926. According to data furnished by the brewmaster and obtained from his record, the total quantity of 2.5 per cent beer made between the 1st of December, 1923, and the 30th of April, 1925, amounted to 85,312 gallons, but in view of the evidence given by the brewmaster before us, we do not think that these figures can be relied upon and consider that the total production of this brewery should be regarded as strong beer, even though entered in the records as 2.5 per cent. The evidence would indicate that sales for export were made and delivery taken in Canada and that the company may be liable for sales tax on all sales made whether for domestic purposes or for export. According to such records as were available to our auditors, the total gallonage sold between May, 1922, and August 31, 1926, was 1,122,562, and the gallonage tax on this production would amount to \$140,320.25. The company paid in respect of such taxes only \$26,750.63, and this would leave a balance owing in respect of gallonage tax up to the 31st of August, 1926, of \$113,569.62.

With reference to the 30 cents gallonage tax which applied prior to May 10, 1921, the position from January 1, 1921, no records being available prior to that date, is a total gallonage sold between January 1, 1921, and May 10, 1921, of 181,206. On this, the gallonage tax would amount to \$54,361.80. The company paid in respect of such period only \$34,319.10, leaving a balance due the Government of \$20,042.70. The sales tax due by the company on both domestic and export sales covering the period above referred to would amount to \$16,465.43. The evidence is clear that this company was a most deliberate and persistent offender in many respects. It continuously sold strong beer in Ontario; it was fined for violation of the regulations with reference to labels. It followed a persistent course of destroying its records of original entry and deliberately made false returns to the Government, with reference to sales and gallonage taxes.

RECOMMENDATIONS

(1) That action be taken against this company to recover the gallonage and sales taxes above referred to;

(2) That this company be refused a renewal of its license unless and until there is a complete change in management.

The evidence indicates that since the investigation made by our auditors, there has been a change in control of this company but we think that is not sufficient and that there should be a complete change in management.

WITNESSES

B. Moriarity, Volume III, Hamilton, page 17,466.

B. Moriarity, Volume V, Hamilton, page 17,775.

H. J. McIntyre, Volume III, Hamilton, pages 17,455; 17,488.

John Merkt, Volume III, Hamilton, page 17,490.

G. H. Levy, Volume III, Hamilton, page 17,494.

A. E. Nash, Volume III, Hamilton, page 17,491.

F. B. Taber, Volume II, Hamilton, page 17,397.

G. Bootland, Volume III, Hamilton, page 17,433.

L. Loranzetti, Volume III, Hamilton, page 17,445.

A. Hughes, Volume III, Hamilton, page 17,450.

A. F. Hackbusch, Volume III, Hamilton, page 17,454.

M. A. Romeo, Volume V, Hamilton, page 17,797.

R. Carboni, Volume V, Hamilton, page 17,805.

L. Mascia, Volume V, Hamilton, page 17,815.

EXHIBITS Nos. 757 to 772 inclusive; 786 and 831.

HAMILTON BREWING ASSOCIATION

This company, incorporated in 1903, with its head office in Hamilton, has undergone many modifications, both in the status of its capital and control. Its shareholders were at one time the shareholders of the Grant's Spring Brewery Company Limited. A sort of control of the Hamilton Brewing Association Limited over the other company was agreed upon. Lately, the Canadian Brewing Association, a Toronto corporation, has purchased the stock of the Hamilton Brewery Association, of Grant's Spring Brewery Company, and of Dominion Brewery at Toronto. However, each company is managed separately.

The company manufactured light and strong beer for sale in Ontario and for export.

With regard to the domestic sales, officials of the company stated that since the commencement of the O.T.A., sales in Canada were confined to 2.50 per cent and 4.4 per cent beer. This, however, does not appear to be borne out by the records of the company. Data furnished to the auditors by the brewmaster and obtained from the records of the company show a total production of 2.5 per cent beer during the years 1923-24, of 202,662 gallons, whereas the company's financial records for the same period show sales purporting to be 2.50 per cent beer amounting to 402,845 gallons; an excess over quantity claimed to be produced, of 220,183 gallons.

During that period, the company manufactured strong beer for export and the above figures would indicate the probability that the excess of 220,183 gallons represents strong beer sold and recorded as 2.50 per cent. If the assumption is correct, the company is liable to the department for the gallonage tax of 12½ cents per gallon on this excess of 220,183, which amounts to \$27,522.37.

The records prior to 1923 have not been examined and it would be interesting to ascertain if the same practice was followed, in which case, gallonage tax should be claimed from the company on the production of strong beer declared as 2.50 per cent beer.

It was impossible for our auditors to report as to the exact production of the company from January 1, 1925, to May, 1925, at which time the sale of 4.4 per cent beer became legal, as the company is reported as having then carried on experiments with 4.4 per cent beer and the brewmaster could not supply data to show what quantities of each variety of beer was produced.

The company's sales for export were largely handled by one or more forwarding agents and, recently, by the Bermuda Export Company Limited.

Prior to the formation of the Bermuda Export Company, the Hamilton Brewing Association had several agents and expended substantial sums in commission, but did not disclose these commissions in its returns for sales tax. The practice of the company was to consider the amount of the sales as the net return after deduction of all commissions paid to agents in the United States.

All the exports of the company were alleged to be made to the United States.

Various systems were adopted, one being that the sales were made at the office of the company, and goods delivered and paid for there. Form B-13 was used in many instances, but the evidence disclosed the fact that some beer was exported in cars, camouflaged, and we have reliable evidence that three shipments were made in this manner, camouflaged as hay, machinery, etc. It would appear that the manager of the company knew of this procedure and helped to carry it out. Such practice took place prior to the amendments making it a criminal offence.

It was proved that the company sold strong beer in Ontario under the cash and carry system and we have reason to believe that strong beer alleged to be for export was delivered on trucks, but never left Ontario.

The company has made payments amounting to probably over \$7,000 to W. M. Egan, concerning whose activities report is made elsewhere.

It would appear that the company made some shipments of beer that were not entered in the sales record and on which no sales tax or gallonage tax was paid. This would represent approximately \$1,924.88.

For a period of one month—May, 1925—the company failed to pay gallonage tax on 4.4 beer sold locally, representing an amount of \$2,045.

In computing the sales tax up to May 1925, the company did not deduct the gallonage tax and provincial luxury tax and, in respect to charges for freight, the company claims that these were set forth on the invoices to purchasers. It may have overpaid sales tax on these items and there is ground for further investigation.

The gallonage tax on export sales has been paid up to April, 1925. On sales made since that date, the company's contention is that this tax is not payable. The amount claimed therefore from May 1925 to August 31, 1926, is \$100,041.58.

No sales tax was paid on exports since 1922 for the same reason as the non-payment of gallonage tax. According to our auditors, sales tax amounts to \$115,104.58.

The amount ascertained by our auditors as above mentioned for sales and gallonage tax is \$245,648.91, leaving certain other matters unascertained as explained in the auditors' report.

The company made its income tax returns for 1923, 1924, 1925 and paid its income tax but, as the amounts have been based on profits after deducting reserves for gallonage and sales tax on alleged exports claimed by the department but not paid by the company, it may be that the income tax returns may require revision when that matter is determined.

RECOMMENDATION

(1) That the investigation into the business of the Company be continued so as to ascertain the amount of export sales for the period not covered by the investigation made by our auditors;

(2) That all arrears of taxes be collected.

WITNESSES

G. Russell, Volume III, Hamilton, page 17, 511.

G. Russell, Volume IV., Hamilton, page 17, 594.

R. Colvin, Volume I., Hamilton, page 17, 133.

S. A. Moore, Volume III, Hamilton, page 17, 538.

S. A. Moore, Volume IV, Hamilton, page 17, 592 and 17, 627.

K. Mapp, Volume IV, Hamilton, Page 17, 673.

A. E. Nash, Volume IV, Hamilton, page 17, 630.

EXHIBITS Nos. 773 to 777 inclusive.

THE HUETHER BREWERY LIMITED

This company operates a brewery at Kitchener in the province of Ontario. It had suspended operations for some years prior to November, 1924, when it recommenced operations. The first sales were made in January, 1925. The inquiry was confined to the period from January 1, 1925, to December 31, 1926. The only irregularity or improper practice disclosed was the method in which the documents known as B 13's in the customs procedure were used to cover shipments of strong beer from the brewery to customers in Ontario in order to prevent seizure by the provincial authorities. As this method of improper use of

these forms will be dealt with in our general report, we refrain from making any extended comments here further than to say that this company indulged in this improper practice.

The audit made by the auditors for the commission discloses that for the period investigated there was a large amount due for sales and gallonage tax upon the basis of the company's own records and returns. In addition this company had not paid either sales or gallonage taxes on certain alleged export shipments. The evidence establishes that these shipments were made from the brewery to certain persons at ports on the Detroit and St. Clair rivers, where delivery was taken by purchasers from the United States, and the purchase price paid, so that the sale was consummated in Canada. The amount appearing to be due in respect of the aforesaid matters is estimated at \$49,568.50 for the period mentioned by the auditors of the commission.

RECOMMENDATION

That action be taken to collect arrears of sales and gallonage tax due.

WITNESSES

A. E. Nash, Volume IX, Toronto, page 13,890.
L. Feik, Volume IX, Toronto, page 13,854.
O. Paquette, Volume III, Windsor, page 15,620.
O. Paquette, Volume VI, Windsor, page 16,121.
C. Huether, Volume IX, Toronto, page 13,869.
C. P. Miller, Volume IX, Toronto, page 13,884.
W. J. Brown, Volume XI, Windsor, page 16,881.
EXHIBIT No. 573.

ALEXANDER KEITH & SON

This firm operates a brewery at the city of Halifax, in the province of Nova Scotia. The only matters in connection with the operations of this firm relate to the Sales Tax Branch of the department. The books of the company were not properly kept and did not show the actual amount of the sales of the product of the firm. The auditors found upon investigation that a separate book had been kept by the manager in which he recorded the disbursements of the firm, and these disbursements were paid out of moneys received by him, and not entered in the proper books of account of the firm. No sales taxes had been paid in respect of the money so received. The result of this is that a sum in excess of \$12,000 is due for sales taxes up to June 1, 1927. The difference between the books showing the production of beer by this firm and the sales confirms the Auditor's estimates in this respect.

The firm sold considerable of their products for ships' stores but failed to comply with the provisions of the Special War Revenue Act, which required that the vendor of beer and other goods sold for ships' stores should procure a receipt from the master of the vessel as to the sale and delivery of same. This firm neglected to procure such receipt or certificate. We are convinced the omission was unintentional, and this feature might well be considered by the department. The amount due for sales tax in respect of this is estimated by the auditors at \$1,719.95. The firm, however, made certain over-payments in respect of sales and gallonage taxes, and such over-payments would form a proper subject of set-off against any claim the department might make.

RECOMMENDATION

That action be taken to collect the balance of taxes due by this firm.

WITNESSES

A. E. Nash, Volume IV, Halifax, page 21,691.
W. O. Connell, Volume IV, Halifax, page 21,713.
G. L. Renner, Volume IV, Halifax, page 21,706.
W. R. Powell, Volume IV, Halifax, page 21,711.
A. G. Forster, Volume IV, Halifax, page 21,725.
EXHIBIT No. 999.

KIEWEL BREWING COMPANY LIMITED

This company was incorporated in June, 1924, with head office in the city of St. Boniface, Man., where it carries on the business of manufacturing and selling beer. The investigation by our auditors covered the period from its incorporation until the 31st of October, 1926. There appears to be due for sales tax, \$541.65, but as against that there are certain overpayments which have been made due to errors of calculation, amounting to \$562.10, leaving a net amount overpaid on sales tax of \$20.45.

There is due for gallonage tax the sum of \$599.99, thus leaving a balance due the Government on both sales and gallonage taxes of \$579.54.

The company claims by way of rebate on malt used the sum of \$423.25. Apparently it is entitled to this sum.

RECOMMENDATION

That adjustment and collection of taxes due as above indicated be made.

WITNESSES

A. E. Nash, Volume XI, Winnipeg, page 12,155.
C. Kiewel, Volume XI, Winnipeg, page 12,140.
J. Allan, Volume XII, Winnipeg, page 12,229.
EXHIBITS Nos. 500 and 501.

KUNTZ BREWERY LIMITED

This company carries on business at Waterloo, Ont., and manufactures and sells 2.5 per cent, 4.4 per cent and strong beer. The 2.5 per cent and 4.4 per cent production was sold for local consumption; the strong beer was sold both for export and for local consumption.

The export business prior to July, 1926, was carried on through agents located in the Windsor district, the beer being forwarded to these agents and one Harry Whiteside, Detroit, being designated in the export entries as purchaser. The records of the company indicate that the beer was charged to the respective agents operating in the Windsor district, and credit was given to them for all moneys reported by them to the company. The name of Harry Whiteside does not appear in the records of the company at all. The evidence would indicate that the beer was taken possession of at the docks by parties who crossed the river from Detroit for that purpose and who apparently paid for the beer to the company's agent when delivery was so taken. After July, 1926, the export business was carried on through the agency of the Bermuda Export Company.

The company also sold strong beer in carload lots at the brewery. The purchaser or purchasers of such goods appear to have taken delivery at the brewery and to have billed the goods out over the railway as other commod-

ities, such as scrap leather, etc. There are no records in the books of the company to indicate who these purchasers were, and the officials of the company were not able to enlighten us. This method of shipping strong beer, the product of this company, was so persistently carried on as to raise a strong presumption that it was done with the connivance and assistance of the company. A large proportion of the sales made by this company were never entered in the sales journal, the entries being made in the cash journal only, and this applied both to domestic sales and sales made for export. In other cases where sales were made for domestic purposes, the entry in the sales journal reported only a part of the price. The entry thus made represented the price of 4.4 beer, and the difference between the price of 4.4 and the strong beer thus sold was entered up in the cash journal only. In sales made for export, it would appear that the entry in the sales journal covered only the contents, being the price of the beer itself, and the price charged for bottles, cases, kegs, freight, general expense and trade discounts was charged in the cash journal.

The returns to the Government made by the company from time to time for sales tax purposes included only such sales and prices as were disclosed in the sales journal, and did not refer to or in any way disclose the sales or that part of the price that was entered in the cash journal. These reports were made presumably under oath, and they must have been made with the knowledge that they were false, and with the intent of defrauding the Government. The extent of this fraud is disclosed in the fact that the entries relating to sales or portions thereof which passed through the cash book and were not referred to in the sales book during the period from April 1, 1923, to September 30, 1926, amounted to \$731,461.28, according to the report of our auditors, and in this way the Government was defrauded of its revenue on such sales in approximately the amount of \$46,000.

The books of the company had been audited from time to time by the Government auditor, but the audit had not been of such a character as to reveal these losses. This case well illustrates the fact that the auditing system of the department was not in many instances at all thorough or satisfactory. It was only when the auditors for the commission made their investigations that the irregularities and frauds referred to were disclosed.

As a result of the audit made by our auditors, there appears to be due by this company as of the 30th September, 1926, for sales and gallonage tax on domestic sales \$66,227.20 and on export sales \$57,017.90, or a total of \$123,245.10. A portion of these taxes on the so-called export sales are in dispute, the company claiming that such sales are not subject to such tax. In addition to the taxes aforesaid, there is a further claim for sales and gallonage taxes of \$982.36 as disclosed by the auditor's report, making a total claim of \$124,227.46. The amount thus disclosed as owing by the company does not take into consideration the operations of the company prior to the 1st April, 1923, but in view of the disclosures that have been made, we think it imperative that a further investigation should be made of the operations of this company prior to that date.

We also desire to call attention to the fact that the amount of beer sold covering the period of investigation was 2,866,336 gallons, whereas the amount brewed was 3,812,236 gallons, leaving a balance to be accounted for of 945,900 gallons. This unaccounted for balance represented practically 25 per cent of the total production, and after all possible explanations represented a shrinkage out of all proportion to what might be expected.

In view of the fact that the legislation providing penalties for false returns under the Sales Tax Act was only enacted at the last session of Parliament, such legislation would not be applicable to returns made by this company. In the light of the evidence given before us of the laxity of customs officers in

administering oaths, it is questionable whether or not such affidavits were properly made. We therefore on the whole find it impossible to recommend prosecutions in this case, notwithstanding the many irregularities.

RECOMMENDATIONS

(1) That a further audit be made of the activities of this company prior to April 1, 1923;

(2) That action be taken to recover the amount of taxes above indicated as due, as well as any further taxes that may be found to be due on further investigation;

(3) This company is owned and managed largely as a family affair, and we were disposed to recommend that it be refused renewal of its license, but on further consideration we recommend that the future activities of this company be closely scrutinized, and should it be found guilty of serious irregularities in the future, that its license be suspended or cancelled.

WITNESSES

N. Feik, Volume IX, Toronto, page 13,867.
 A. E. Nash, Volume X, Toronto, page 14,045.
 A. E. Nash, Volume XI, Toronto, page 14,241.
 H. F. Kuntz, Volume X, Toronto, page 14,056.
 H. F. Kuntz, Volume X, Toronto, page 14,104.
 H. F. Kuntz, Volume I, Montreal, page 18,600.
 R. Menzies, Volume X, Toronto, page 14,087.
 R. Menzies, Volume XI, Toronto, page 14,176.
 R. Menzies, Volume XI, Toronto, page 14,191.
 R. W. Moore, Volume X, Toronto, page 14,089.
 R. W. Moore, Volume XVIII, Toronto, page 18,242.
 G. Hassell, Volume XI, Toronto, page 14,167.
 L. J. Hoffman, Volume XI, Toronto, page 14,181.
 L. J. Hoffman, Volume XVIII, Toronto, page 18,280.
 F. C. Bartholomew, Volume XIX, Toronto, page 18,557.
 EXHIBITS Nos. 747 to 756 inc.; 572; 577; 579; 826 and 580.
 All witnesses pages 17,333 to 17,397—Volume II, Hamilton.

JOHN LABATT COMPANY LIMITED

This company operates a brewery at the city of London, in the province of Ontario. There are only a few matters that call for notice or comment in connection with the operations of this company. There was evidence that shipments of beer were made to the United States camouflaged as other commodities, but the evidence adduced before us was not sufficient to establish that this camouflaging was done by the company or any of its officers or responsible employees. The company discontinued the shipment of beer in carload lots to the United States some time in 1924.

Another matter that requires attention is in respect of the sales and gallonage taxes. This company paid sales and gallonage taxes on domestic and export sales up to February, 1926, based on their own computations which were not entirely accurate, and might well be reviewed by the departments having charge of the same. After the date mentioned, February, 1926, the company discontinued payment of either sales or gallonage tax on the alleged export sales, but as the method of operations in connection with these alleged export sales was similar to that followed by other breweries reported upon

elsewhere, it is sufficient to state here that the question as to the liability of the brewery to pay sales and gallage taxes on the alleged exports is now the subject of an action in the courts. If the contention of the department is upheld, and these alleged export sales are subject to sales and gallage taxes a very large sum, estimated by the auditors of the Commission at upwards of \$100,000, is due and payable by this company.

This company appears to have used improperly the documents known as B-13's in connection with goods which were alleged to be intended for export but which were in reality sold in the province of Ontario, and affords another illustration for the necessity of enacting stringent measures to prevent the abuse of these customs forms and documents.

RECOMMENDATION

That the necessary action may be taken to collect any balance due by this company.

WITNESSES

J. H. Hitchings, Volume XIII, Toronto, page 14,496.
 E. M. Burke, Volume XIII, Toronto, page 14,521.
 E. M. Burke, Volume XIX, Toronto, page 18,475.
 J. D. Aitken, Volume XIII, Toronto, page 14,565.
 T. Cousins, Volume XIII, Toronto, page 14,580.
 A. E. Nash, Volume XIII, Toronto, page 14,582.
 A. E. Nash, Volume XIV, Toronto, page 14,600.
 C. Wise, Volume XIII, Toronto, page 14,591.
 L. F. McCaughey, Volume XVIII, Toronto, page 18,234.
 EXHIBITS Nos. 586, 687 and 811.

LA BRASSERIE CHAMPLAIN LIMITEE

This company carries on business in the city of Quebec and manufactures strong beer. In addition to sales in the province of Quebec, the company has shipped strong beer to the provinces of Nova Scotia and New Brunswick. Shipments to these provinces were made by freight in the following manner:—

(1) They were invoiced to the purchaser but the shipping bill gave a fictitious name as shipper and in some cases a different name from that of the purchaser as consignee and the goods themselves were described as temperance beer, fruit syrup, aerated waters, pickles in vinegar, etc.

(2) They were shipped under the name of the company as "temperance beverages" and "bottled beverages".

Under section 412 of the Criminal Code, as amended by section 7 of chapter 38 of the Statutes of 1925, shipments made in this manner are made a criminal offence and the parties guilty are liable to be prosecuted and punished under summary conviction proceedings.

Shipments of this character were apparently made somewhat extensively during the years 1923 and 1924 but the evidence does not indicate any violations since that time which would justify prosecution under the aforesaid amendment to the Code.

A shipment of beer made to one J. A. Thompson, Woodstock, New Brunswick, by the company on April 22, 1924, was seized by New Brunswick prohibition officers and it was found that the bottles were not properly labelled. A fine of \$200 was imposed by the department for violation of the provisions of the Inland Revenue Act and was subsequently paid. The records of the company also indicate that in May, 1924, a fine of \$70 was imposed by the

Quebec Liquor Commission for a shipment of beer seized by their officers, which was billed to a party in the Maritime Provinces under a false name. This fine was subsequently paid.

The company is in arrears under the rulings of the department in respect of sales and gallonage taxes for the period from January 1, 1924, to March 31, 1927, as follows:—

Sales taxes.. . . .	\$10,817 20
Gallonage taxes.. . . .	62,053 08
	<hr/>
	\$72,870 28

There is evidence which indicates that these arrears are now being taken care of under some arrangement made with the Department of National Revenue.

WITNESSES

A. E. Nash, Volume II, Quebec, page 20,307
 R. Premont, Volume II, Quebec, page 20,312.
 B. Mooney, Volume II, Quebec, page 20,323.
 J. Noonan, Volume II, Quebec, page 20,324.
 EXHIBITS Nos. 916, 917 and 918.

LETHBRIDGE BREWERIES LIMITED

This company carries on business at Lethbridge, Alberta, and manufactures lager, ale and stout. Owing to the absence of records prior to the 1st of June, 1924, the examination by our auditors only covered the period from June 1, 1924, to December 31, 1926.

There appears to be owing by this company for sales taxes to December 31, 1926, the sum of \$27,927.82 and also a liability for gallonage taxes, due to inaccuracies in computation, of \$1,505.02. There may also be a further claim upon investigation of a substantial amount for sales taxes on price differences.

RECOMMENDATION

That action be taken to collect the amounts due as above referred to.

WITNESS

A. E. Nash, Volume II, Calgary, page 8,321.
 EXHIBIT No. 324.

McDONAGH & SHEA

SHEA'S WINNIPEG BREWERY

This brewery was established in Winnipeg, Man., about thirty-nine years ago by Mr. McDonagh and Mr. Patrick Shea, under the name of "McDonagh & Shea".

After nine years, Mr. McDonagh died but Mr. Shea continued under the same name. The Shea's Winnipeg Brewery Limited was incorporated in 1926, with authority to acquire and take over as a going concern, as from January 1, 1926, the business which had been carried on under the name of McDonagh & Shea.

The output of the company has been 2½ per cent, 4.4 and strong beer. All sales were made in the provinces of Ontario, Manitoba and Saskatchewan.

The calculation made by the company in connection with the returns for the payment of sales tax was not in accordance with the rulings of the department. Deductions were made to the amount of \$171,987.40 on which the sales tax unpaid amounts to \$8,189.87. The company also owes for gallonage tax \$9,636.28, being a total of \$17,826.15. Some additional sales tax may also be due in connection with certain commission allowances charged against the sales and which are not properly allowable.

The company has used sugar for manufacturing without paying the excise duty payable in such case. False entries were made in the books at the instigation of one of the parties interested and to serve his own personal interest. The effect of these false entries would have been to defraud the Government of a substantial amount owing in respect of income tax, had our auditors not made the discovery.

RECOMMENDATION

That the department make a complete investigation or continue the investigation already started of the business of the company in order to ascertain the amount due for sales tax, gallonage tax and income tax, and collect the same.

WITNESSES

(Re McDonagh & Shea)

A. E. Nash, Volume IX, Winnipeg, page 11,755.

(Re Shea's Winnipeg Brewery)

A. Sullivan, Volume VI, Winnipeg, page, 11,239.

A. Sullivan, Volume X, Toronto, page 14,025.

J. F. Boyd, Volume IX, Winnipeg, page 11,691.

J. L. LeMay, Volume IX, Winnipeg, page 11,755.

A. E. Nash, Volume IX, Winnipeg, page 11,756.

A. E. Nash, Volume XII, Winnipeg, page 12,257.

A. Code, Volume XI, Winnipeg, page 12,042.

A. Code, Volume XII, Winnipeg, page 12,196.

J. Dries, Volume XII, Toronto, page 12,199.

A. W. Gibb, Volume X, Toronto, page 13,938.

Mr. Morkin, Volume VII, Toronto, page 13,502.

EXHIBITS Nos. 470 to 475 inclusive, 477, 505, 506, 507, 574.

MEDICINE HAT BREWING COMPANY LIMITED

This company carries on business at Medicine Hat, Alberta, and manufactures and sells ale, porter and lager. On August 1, 1924, the ownership changed hands and the books prior to that time were removed; consequently the investigation carried on by our auditors covered only the period from August 1, 1924, to December 31, 1926.

Owing to errors in computation, there is a liability for sales taxes to December 31, 1926, of \$842.26 and for the same period there is an overpayment of gallonage taxes to the extent of \$215.02. There may be found on further investigation a further claim for sales tax on certain price differences.

We call attention to the fact that comparisons of production and sales indicate a high percentage of wastage, over 18 per cent, which the officials are not able to explain.

RECOMMENDATION

That action be taken to collect the amount found to be due on sales tax as aforesaid.

WITNESS

A. E. Nash, Volume II, Calgary, page 8,321.
EXHIBIT No. 324.

THE MOOSE JAW BREWING COMPANY LIMITED

This company was incorporated in June, 1925, and carries on its business at the city of Moose Jaw in the province of Saskatchewan.

In respect of sales and gallonage taxes, owing to inaccuracies in computation and deductions for prepaid freight, cartage and storage, there are amounts due by this company, but it is clearly owing to mistakes, and no apparent effort was made by this company to evade payment of any taxes justly due by it. As the matters in dispute were said to be in process of adjustment between the company and the department, we do not feel called upon to make any recommendation, but simply to report the facts.

WITNESSES

A. E. Nash, Volume VII, Regina, page 9,525.
G. M. Black, Volume XI, Winnipeg, page 12,081; 12,111.
EXHIBIT No. 361.

MOLSON'S BREWERY LIMITED

This is a long established company carrying on business at Montreal, P.Q. It is engaged in the production and sale of ale and porter. An investigation of the company's operations from the 1st of January, 1924, to the 31st of December, 1926, showed that, owing to errors in computation, the company had overpaid sales tax in the amount of \$32,988.85 and had underpaid gallonage tax in the amount of \$6,578.60, leaving a net over-payment of \$26,410.25.

An examination of the income tax returns filed by the company during the three years in question indicated that certain amounts were deducted from the taxable profits which would not be allowable for income tax purposes and certain other deductions were made which may or may not be allowable.

RECOMMENDATION

That adjustments be made in connection with the overpayment above referred to and that the income tax returns be reviewed and rectified.

WITNESSES

H. W. Molson, Volume VI, Montreal, page 19, 593 *et seq.*
A. E. Nash, Volume VI, Montreal, page 19,584 *et seq.*
EXHIBIT No. 875.

NATIONAL BREWERIES LIMITED, MONTREAL

This is an incorporated company owning and operating four breweries.

In respect of domestic sales there were some arrears of sales tax due, owing to clerical errors in the computations. The same applies to the gallonage tax due in respect of domestic sales. However, these under-payments were more than offset by over-payments which had been made by the company upon an

erroneous basis of calculation, so that in the result a very considerable amount, estimated by the auditors at over \$60,000, had been over-paid by the company in respect of the taxes chargeable against it.

RECOMMENDATION

That it be referred to department for adjustment.

WITNESSES

M. Bernardo, Volume VIII, Toronto, page 13,707.
 H. W. Molson, Volume VI, Montreal, page 19,593.
 A. E. Nash, Volume VI, Montreal, page 19,584; 19,608.
 D. L. Ross, Volume VII, Montreal, page 19,612.
 J. D. Hudson, Volume VII, Montreal, page 19,620.
 C. L. Wise, Volume VII, Montreal, page 19,621.
 EXHIBITS No. 877 and 878.

NORTH WEST BREWERY COMPANY LIMITED

This company incorporated in 1925, commenced brewing operations about November of that year. The investigation of the books and records of the company shows that it has some liability to the department in respect of sales and gallonage tax due to inaccuracies in computation and in making certain deductions not allowed by the department. The exact amount has not been determined.

RECOMMENDATION

That action be taken to determine the correct amount due in respect of sales and gallonage taxes and collect the same.

WITNESS

A* E. Nash, Volume X, Vancouver, page 6,866.
 EXHIBIT No. 324.

OLAND'S BREWERY

This company was incorporated in 1924 to acquire the brewing business then being carried on by George W. C. Oland at St. John, N.B.

The company manufactures and sells strong and temperance beer.

The records of the company investigated by our auditors, show that almost the entire production was sold in the province of New Brunswick except a few exports to the West Indies.

The company paid the domestic sales tax in full except in regard to containers returned by bottle dealers which the department does not recognize as deductible for sales tax purposes. The amount due was computed by our auditors at \$673.03 which has been paid since.

The company has shared in the payment of the fines imposed on its customers and the amounts so paid have been entered in its books as expenses which were deducted from the profits in the income tax returns.

RECOMMENDATION

That the department take action to review and correct the income tax returns and collect the amount found to be due.

WITNESSES

A. E. Nash, Volume IV, St. John, page 20,929.
 G. B. Oland, Volume IV, St. John, page 20,934.
 Mr. Harrison, Volume IV, St. John, page 20,961.
 EXHIBIT No. 945.

OLAND & SON LIMITED

This company was incorporated in 1914. The brewery operated in Haliac until 1917 when it was destroyed by the explosion in Halifax Harbour, and brewing was not recommenced until the beginning of 1926.

The sales and gallonage taxes on sales to ships' stores have not been paid in full on account of the fact that the company did not comply fully with the regulations of the department, not having filed the receipts of the masters of the vessels to which deliveries were made. The amount involved is \$59.14.

RECOMMENDATION

That the amount aforesaid be collected.

WITNESSES

A. E. Nash, Volume III, Halifax, page 21,633.

S. Oland, Volume III, Halifax, page 21,666.

EXHIBIT No. 997.

PELISSIERS LIMITED

This company carries on the business of brewers in the city of Winnipeg, Man.

All sales and gallonage taxes were paid up to December 31, 1926. In fact the investigation showed an overpayment up to that time of \$1,515.61.

RECOMMENDATION

That the Department make all necessary adjustments in connection with the aforesaid taxes.

WITNESS

A. E. Nash, Volume VII, Winnipeg, page 11,505.

EXHIBIT No. 447.

PREMIER BREWING COMPANY LIMITED

This company was incorporated in July, 1924, and is located at Brandon, Man.

The sales and gallonage taxes have been paid regularly, with the exception of certain amounts which appear to be due under the ruling of the department.

It appears that a shipment of 130 barrels of ale valued at \$2,730 and invoiced to Joe Greenbaum, Minneapolis in October, 1925, was really shipped to Prince Albert, Sask., and was seized there. This sale was accounted for in the sales tax return to the amount of \$1,512 only, the balance being represented by a credit of \$1,218 for bottles. Only part of this amount is properly deductible.

Our auditors estimate that the sales taxes recoverable from the company from the 1st of January, 1924, to the 31st of December, 1926, amount to \$1,491.73, and for gallonage taxes, the sum of \$585.28.

The company would also appear to be owing \$143.15 as sales and gallonage taxes on beer given away complimentary.

RECOMMENDATION

That the department collect all taxes due as aforesaid.

WITNESS

A. E. Nash, Volume XIV, Toronto, page 14,764.

EXHIBIT No. 515a.

PRINCE ALBERT BREWERIES LIMITED

This is an incorporated company carrying on business at Prince Albert, in the province of Saskatchewan. Its operations commenced in November, 1924, and the period of our investigation extended from that date to December 31, 1926.

The company has made regular returns of all sales and has paid sales and gallonage taxes according to its computations, but it was found by the auditors of the commission that during the period under review the company made certain deductions in respect of freight prepaid by the company but not shown on invoices as required by the regulations, cost of draying from railway station to warehouse, and the cost of second hand bottles purchased, none of which are allowable under the rulings of the department.

It was estimated by the auditors that in respect of these inaccuracies there is a liability of upwards of \$10,000, against which there appears to be an overpayment in respect of gallonage tax of \$143.39.

RECOMMENDATION

That the department take the necessary steps to collect the arrears due for sales and gallonage taxes as disclosed in this report.

WITNESS

A. E. Nash, Volume VII, Regina, page 9, 525.

EXHIBIT No. 361.

READY'S BEVERAGES LIMITED

This company carries on business at St. John, N.B., and manufactures full strength ale and stout and 2.5 per cent beer.

The investigation made by our auditors covered a period from February 1, 1924, to January 31, 1927.

On the 2nd February, 1926, the company imported a quantity of hops on which dumpage duty was collectible and not imposed. The amount owing for duty in respect of such shipment is \$29.14.

Due to inaccuracy of method of computing sales tax on bottles, the sales tax was overpaid to the extent of \$2,739.28, and due to inaccuracies in computation the gallonage tax was underpaid to the extent of \$33.33.

There is a net overpayment in respect of sales tax, gallonage tax and dumpage duty of \$2,676.81.

The company was fined \$200 in January, 1927, for violation of the Excise Act. The evidence shows that this company sold its products in the city of St. John and throughout the province of New Brunswick in large quantities persistently and openly in contravention of the provincial liquor laws. The evidence also shows that the company shared the fines imposed upon its customers, and that there was expended by the company in respect of such fines during the period of investigation the sum of \$10,000. The evidence further shows that this company made large contributions for political and propaganda purposes for which there were no proper vouchers, and that such contributions were entered in the books of the company as and charged to "Malt Consumption," "Hops Consumption," "Material Consumption," and "Advertising" accounts. In making income tax returns for the years 1924 and 1925 the amounts above referred to were entered as expenses and deducted from the gross income as if they were properly deductible.

The company also invested \$20,000 in securities, and in its income tax return deducted the amount of this investment as a legitimate expense charge against the profits of the business. These false entries made in the income tax returns would appear to have been deliberate, and to render the company liable to be prosecuted and fined under section 9 of the Income War Tax Act.

RECOMMENDATIONS

(1) That an adjustment be made with reference to the income and sales taxes; and

(2) That the company be prosecuted for making false statements in their income tax returns, as provided for in the Income War Tax Act.

WITNESSES

A. E. Nash, Volume IV, St. John, page 20,941.

W. B. Tennant, Volume IV, St. John, page 20,944.

J. L. O'Brien, Volume IV, St. John, page 20,945.

EXHIBIT No. 946.

THE REGINA BREWING COMPANY LIMITED

This is an incorporated company carrying on the business of brewing at the city of Regina.

For several years prior to June, 1925, the company had discontinued operations, but recommenced the same in June, 1925, and the operations of the company were reviewed from that date to December 31, 1926. The company has made regular returns and has paid the sales and gallonage taxes according to its computations but owing to deductions for containers and prepaid freight from the sales before computing taxes, contrary to the rulings of the department, there is estimated by the auditors a liability in respect of sales tax of upwards of \$6,000 but there appears to be an overpayment in respect of gallonage tax of \$122.48. There are no other special features in connection with the operations of this company that call for any comment or report.

RECOMMENDATION

That action be taken to recover the sales taxes due.

WITNESSES

A. E. Nash, Volume VII, Regina, page 9,525.

S. P. Grant, Volume VII, Regina, page 9,553(a).

EXHIBIT No. 361.

REIDLE BREWERS COMPANY

This company was incorporated in 1922 to acquire a small brewery operated in Manitoba since 1905 by Mr. Reidle.

This company manufactured beer and sold its products in Manitoba only. Sales and gallonage taxes were paid with the exception of an amount of \$455.87 due up to the 31st of December, 1926, after allowing for an overpayment of \$127.93 on certain items. This deficiency was due to an error on the part of the company in the computation of the sales and gallonage taxes.

RECOMMENDATION

That the amount due as aforesaid be collected.

WITNESS

A. E. Nash, Volume VII, Winnipeg, page 11,505.

EXHIBIT No. 447.

THE REINHARDT BREWING COMPANY LIMITED

This company carries on business at Toronto and manufactures strong and 4.4 beers.

The period of investigation covered by our auditors was from the date of the company's reorganization, July 16, 1925, to December 31, 1926. During this period the company sold a certain quantity of beer for export to the United States. The goods were shipped by railway to the ports of exit, and the manager admits in evidence that after the goods were put on board the cars the company had nothing more to do with same and no control over them.

There appears to be due for sales and gallonage taxes on the goods so alleged to be sold for export the sum of \$1,486.03.

RECOMMENDATION

That action be taken to recover the amount due as aforesaid.

WITNESSES

A. E. Nash, Volume XII, Toronto, page 14,383.

H. E. Wiedman, Volume XII, Toronto, page 14,381.

EXHIBIT No. 582.

RIVERSIDE BREWERY COMPANY LIMITED

This is an incorporated company carrying on business at Riverside, in the province of Ontario.

The auditors for the commission report that the company did not keep sales invoices, so that it was impossible for the auditors to state that the sales taxes were fully paid, but upon the assumption that records of sales kept by the company apart from the sales invoices were correct, then the company has overpaid its sales tax by some \$64.72.

GALLONAGE TAX

The company did not pay any gallonage tax, claiming that the beer sold by them had been exported, and therefore not liable to taxation. The evidence disclosed that the products of the brewery were in general consigned to D. LeMare of Detroit, and that the goods were paid for either at the brewery or at the dock before shipment. This raises the same question that concerns a great many other breweries and distilleries, and is now the subject of an action pending in the courts. Assuming that the company are liable to pay gallonage tax, there is a liability in respect thereof based on the records available in the company's books of upwards of \$2,300.

RECOMMENDATION

That action be taken to recover the balance due for gallonage tax.

WITNESSES

A. E. Nash, Volume XII, Windsor, page 16,974.

F. J. Kirsch, Volume XII, Windsor, page 16,976.

EXHIBIT No. 711.

THE ROY WOLF BREWING COMPANY LIMITED

BELLEVILLE, ONT.

This company went into liquidation on the 10th of November, 1925, and the prospect is that even the preferred creditors will not be paid in full.

The department has a claim for sales and gallonage taxes amounting to \$4,853.15 and ranks as a preferred creditor.

The department is withholding some \$1,100 drawback of excise duties on malt represented by beer destroyed by the receiver under the supervision of the excise officer, although the receiver claims the department has not the right to withhold same.

As the department is looking after the collection of the amounts due, we simply report the facts.

WITNESS

A. E. Nash, Volume XVIII, Toronto, page 18,372.

EXHIBIT No. 802.

SARNIA BREWING COMPANY LIMITED

This is an incorporated company carrying on business at Sarnia, in the province of Ontario. It commenced operations in September, 1925, and since that date its principal business has been the manufacture and sale of strong beer.

The auditors report that the books of the company disclose the fact that the only possible liability of this company is in respect of sales and gallonage taxes on beer alleged to be exported. It is claimed by the company that the beer manufactured by them was not sold in Canada but the evidence discloses that the settlements for same were mostly made at the brewery or at the docks where the beer was shipped from.

SALES TAX

The company paid sales tax in respect of the beer sold by it for the months of October and November, 1925, and thereafter ceased paying, contending that as the beer had been exported the tax did not apply. In case it should be held that the sales tax does apply, there would appear to be due in respect of the same the sum of \$8,542.68 after crediting certain overpayments made by the company in respect of sales taxes paid by them for the months of October and November, 1925.

GALLONAGE TAX

The company has paid no gallonage tax in respect of the alleged exports of beer since November 30, 1925, and the question of liability to pay same is similar in many respects to the other breweries in the province of Ontario who have been reported on. In case it should be held that this company is liable to pay gallonage tax in respect of these alleged exports, there would appear to be due for gallonage tax up to October 31, 1926, the sum of \$18,988.89. The calculations as to sales and gallonage taxes are made up to October 31, 1926.

RECOMMENDATION

That the evidence be transmitted to the department and that action be taken to recover the amounts due by this company.

WITNESSES

C. Kocot, Volume IV, Windsor, page 15,810.

A. E. Nash, Volume IV, Windsor, page 15,823.

EXHIBIT No. 659.

SASKATOON BREWING COMPANY LIMITED

This company carries on business in Saskatoon, Sask., and manufactures strong beer. The investigation carried on by our auditors covered the period from January 1, 1924, to December 31, 1926.

Due to inaccuracies, there appears to be in respect of such period a liability for sales tax of \$9,279.34, and an overpayment for gallonage tax amounting to \$401.10, leaving a net balance due up to December 31, 1926, for sales and gallonage tax of \$8,878.24.

During the year 1924 certain unvouchered expenditures were made amounting to \$32,064. The evidence shows that these expenditures were largely made in connection with certain plebiscite campaigns. These items were reported in the income tax returns as legitimate expenses of the business.

RECOMMENDATIONS

That action be taken to recover the amount of sales taxes as above indicated, and that the income tax returns for 1924 be reviewed in the light of the evidence.

WITNESSES

A. E. Nash, Volume VII, Regina, page 9,524.

B. W. Hoeschen, Volume VII, Regina, page 9,554.

EXHIBIT No. 361.

SILVER SPRAY BREWERIES LIMITED

This is an incorporated company carrying on business at the city of Calgary, in the province of Alberta. At the present it would appear that the greater part of the stock of this company is held by the Calgary Brewing and Malting Company Limited. The only matters deserving of comment in connection with this company are:

- (1) In respect of sales tax;
- (2) In respect of special expenditures appearing in the books of the company.

As regards the sales tax it would appear that up to December 31, 1926, it was claimed by the Department of National Revenue that this company owed the sum of \$5,137.23 largely due to the method used by the company in accounting for containers before computing the taxes payable. It was stated by counsel for the company that the claim of the department was not admitted, and would be contested in the courts. The company had overpaid its gallonage tax to December 31, 1926, by \$1,080, according to the report of the auditors of the commission.

In respect to the special expenditures entered in the books of the company as extra expense or special expense, the evidence discloses that the amounts in the former account were paid for propaganda purposes and in respect to the latter no vouchers were forthcoming. Apparently the amount of these two accounts was deducted from the profits of the company and the income tax computed on the balance, and we are of opinion that there should be a further inquiry as to the propriety of these payments being deducted in the manner mentioned.

RECOMMENDATIONS

- (1) That action be taken to recover the amount due for sales tax;
- (2) That the department review the income tax returns in the light of the evidence, and take the necessary steps to collect any balance of income tax that may be due.

WITNESSES

A. E. Nash, Volume X, Vancouver, page 6,866.
A. E. Nash, Volume XVII, Vancouver, page 7,904.
R. McCrossen, Volume II, Calgary, page 8,315.
EXHIBIT No. 324.

SILVER SPRINGS BREWERY COMPANY LIMITED

This company carries on business at Sherbrooke, P.Q., and manufactures ale and porter.

The investigations made by our auditors covered the period from January 1, 1924, to December 31, 1926. In that time there was one importation of hops on which a dumpage duty should have been levied and in respect of which the unpaid import duties amount to \$34.25.

There appears to be due in respect of sales tax up to the 31st of December, 1926, \$10,341.77, and gallonage tax for the same period amounting to \$30,941.77, making a total liability of \$41,317.79.

It appears from the evidence that a part of this amount has been paid since the auditors made their investigation and the evidence indicates that the total liability is admitted, and that the balance unpaid is being secured to the department.

RECOMMENDATION

That all necessary steps be taken to ensure payment of the aforesaid liability.

WITNESSES

C. A. French, Volume I, Montreal, page 18,693.
J. E. Roy, Volume VIII, Montreal, page 19,900.
A. E. Nash, Volume VIII, Montreal, page 19,909.
EXHIBIT No. 889.

SLEEMAN BREWERY

This brewery is operated at Guelph, Ont., and appears to be at present owned by the "Sleeman's Springbank Brewery Company Limited."

The investigation of our auditors covered a period from January 1, 1924, to December 31, 1926. During this period the brewery was owned by one George Sleeman and operated under a power of attorney by his son, Henry O. Sleeman. The product of the brewery appears to be beer of both 2.5 and 4.4 per cent in strength.

The books and records kept by this brewery were very imperfect and unsatisfactory, and many of the records such as they were, were lost before our auditors made their investigations. Mr. H. O. Sleeman gave evidence before us, as also did his book-keeper, and we had some difficulty in arriving at the conclusion that the books and records were not intentionally lost. Our auditors had great difficulty in making anything like a satisfactory audit upon their first investigation. After the examination before us of Mr. Sleeman and his book-keeper, our auditors made a further investigation with better success.

The result of these investigations indicates that there is due for gallonage taxes the sum of \$1,389.51 and for sales taxes \$1,985.57, or a total of \$3,375.08.

It appears that Mr. Sleeman made income tax returns for 1924, but no returns were made for 1925. It would also appear that the sales reported on the income tax return for 1924 are inaccurate and should be reviewed.

RECOMMENDATION

That action be taken to recover the amount due for sales and gallonage taxes as above indicated, and that the income tax returns for 1924 be reviewed, and that income tax returns for 1925 be enforced.

WITNESSES

A. E. Nash, Volume XVI, Toronto, page 15,025.
 A. E. Nash, Volume XVIII, Toronto, page 18,374.
 A. E. Nash, Volume III, Hamilton, page 17,508.
 A. E. Nash, Volume I, Montreal, page 18,646.
 H. O. Sleeman, Volume XV, Toronto, page 14,874.
 H. O. Sleeman, Volume III, Hamilton, page 17,496.
 Mrs. Gertrude Hussey, Volume XV, Toronto, page 14,881.
 J. R. Hanlon, Volume XV, Toronto, page 14,901.
 EXHIBITS Nos. 804 and 832.

STERLING BREWERY COMPANY LIMITED

This company carried on business at Valleyfield, P.Q., and manufactured strong beer.

The investigation made by our auditors covered a period from the 15th October, 1925, being the commencement of operations, to the 15th December, 1926. The company went into a receiver's hands on the 15th December, 1926, but practically no manufacturing was done thereafter, and the assets of the company have since been taken over by the Mount Royal Breweries, a new company, and the new company is continuing the business.

Both sales and gallonage taxes were paid up to 1st February, 1926, but no taxes were paid subsequent to that date. The amount computed to be due to the 15th December, 1926, on gallonage tax is \$9,422.51, and on sales tax \$1,723.49, making a total liability of \$11,146. This indebtedness has, we understand, been assumed by the Mount Royal Breweries and is being taken care of under an arrangement made with the Department of National Revenue. There is nothing further to report with reference to this company.

WITNESSES

A. E. Nash, Volume IV, Montreal, page 19,200.
 J. C. Brown, Volume IV, Montreal, page 19,202.
 G. Whittaker, Volume Va, Ottawa, page 23,002.
 EXHIBIT No. 864.

SUDBURY BREWING AND MALTING COMPANY LIMITED
 KAKABEKA FALLS BREWING COMPANY LIMITED
 SOO FALLS BREWING COMPANY LIMITED

These three companies carry on business respectively at Sudbury, Fort William and Sault Ste. Marie, Ont., and are dealt with together because they are owned and controlled by the same parties and the conditions revealed with reference to them are almost identical. Our auditors when investigating the operations of these companies found that most of their records up to December 31, 1926, were destroyed and that such records as remained were not sufficient to enable the auditors to verify the accuracy of the statements appearing in the general ledger. These records were apparently destroyed in January, 1927, just a few weeks before our auditors made their investigation, and the only reason-

able inference we can draw under all the circumstances is that they were destroyed with the intent that they should not be available for inspection by our auditors.

From such records as were available and on the assumption that the same are correct, which assumption cannot be verified, there are owing the following amounts, covering a period of three years from January 1, 1924, to December, 31, 1926;

By the Sudbury Company:

On domestic sales—		
Re gallonage tax	\$	7 04
Re packages	Sales tax	726 03
Re freight deductions	Sales tax	2,960 13
Re packages	Sales tax	739 74
Re errors in computation		401 50
Export sales	Sales tax	1,434 03
Total		\$6,268 47

By the Kakabeka Falls Company:

On sales tax	\$	96 85
		\$ 96 85

By the Soo Falls Company: For a period from January 1, 1925, to December 31, 1926, all records prior to January 1, 1925, being destroyed:

On sales and gallonage taxes—		
Gallonage tax due re errors	\$	77 01
Sales tax due errors		67 21
Sales tax on packages		103 01
Sales tax on old package account		66 50
Total		\$ 313 73

The evidence shows that each of these companies has been fined on several occasions for selling strong beer in Ontario and in the absence of the records, we think it is fair to assume that at least 50 per cent of the beer entered as 2.5 was in reality strong beer and that it should be taxed accordingly.

In the case of the Sudbury Brewing Company, the gallonage of 2.5 from January 1, 1924, to May 20, 1925, the date when 4.4 was manufactured, is 478,713 and the gallonage tax on 50 per cent of this production would be \$29,919.50.

In the case of the Kakabeka Falls Company, the gallonage of 2.5 from January 1, 1924, to May 20, 1925, is 127,385 and the gallonage tax on 50 per cent of this production would be \$7,961.50.

In the case of the Soo Falls Company, the gallonage of 2.5 from January 1, 1925, to May 20, 1925, the 1924 figures not being available, is 24,687, and assuming the average for 1924 to be similar to that of 1925, the total from January 1, 1924, to May 20, 1925, would be 88,155 and the gallonage tax on 50 per cent of this production would be \$5,509.75.

We, therefore, report the amounts apparently due by these respective companies up to December 31, 1926, as follows:—

Sudbury Company.. . . .	\$6,268 47 and \$29,919 50—	\$36,187 97
Kakabeka Falls Co..	96 85 “	7,961 50— 8,058 35
Soo Falls Company.. . . .	313 73 “	5,509 75— 5,823 78

We had considered the advisability of recommending suspension of the licenses for these companies but on reflection we suggest that such a step is not necessary assuming that settlements of the aforesaid are promptly made.

RECOMMENDATION

That action be taken to recover the amounts aforesaid.

WITNESSES

J. Samson, Volume XVII, Toronto, page 15,121.
 A. E. Nash, Volume XVII, Toronto, page 15,145; 15,167; 15,173.
 J. Ryan, Volume XVII, Toronto, page 15,151; 15,165..
 O. McLeod, Volume XVII, Toronto, page 15,156.
 G. Milne, Volume I, Windsor, page 15,325.
 A. E. Nash, Volume VI, Windsor, page 16,170.
 EXHIBITS Nos. 616, 618 and 619.

TAYLOR AND BATE LIMITED

This company carries on business at St. Catharines, Ont., and manufactures ale, lager and porter for domestic purposes and for export. The company has quite recently changed ownership.

The period covered by the investigation of our auditors was from March, 1925, the date of the inception of the company, to February 28, 1927. Fully two-thirds of the total sales made by the company were entered as export sales. In some cases delivery was made at the ports of exit by railway car, and in other cases by the company's trucks. In the case of many so-called export sales, delivery was made at the brewery to the purchaser's truck, and the company had no further responsibility. In all cases delivery and settlement for the goods appears to have been made in Canada.

There is due according to the report of our auditors on domestic sales for sales and gallonage taxes \$319.88, and on export sales for sales and gallonage taxes \$25,431.25, or a total of \$25,751.13.

RECOMMENDATION

That action be taken to recover the amount due as aforesaid.

WITNESSES

E. T. Sandell, Volume I, Niagara Falls, page 17,936.
 J. F. Mallon, Volume I, Niagara Falls, page 17,937.
 B. Wettlings, Volume I, Niagara Falls, page 17,960.
 F. Lawson, Volume I, Niagara Falls, page 17,968.
 A. E. Nash, Volume II, Niagara Falls, page 17,977.
 J. R. Roberts, Volume XIX, Toronto, page 18,524.
 EXHIBIT No. 789.

WALKERVILLE BREWERY

This company is located at Walkerville, Ont. It was incorporated in January, 1924, and took over the business previously carried on by Walkerville Brewery Company Limited.

The company manufactures and sells light and strong beer.

The investigation of the company by our auditors covered the three years from the 1st of January, 1924, to the 31st of December, 1926. The bulk of the company's business is alleged export trade with A. C. Clemens of Detroit. Large orders from him are on file calling for shipments from time to time as required. These goods were paid for in cash at the time of loading on the boats. Since July, 1926, all sales have been made through the Bermuda Export Company.

Since September, 1925, the company has not paid gallonage tax and the auditors estimate the amount owing up to the 31st of December, 1926, to be \$86,870.20.

Sales tax on export sales was paid up to the end of October, 1925, but the company's computation was not made in accordance with the rulings of the department. No sales tax was paid thereafter. The auditors' computation of the amount payable on this item to December 31, 1926, is \$42,545.91, making a total of unpaid sales and gallonage taxes for the period above mentioned of \$129,416.11.

The method adopted by the company of entering up the mash book rendered difficult to state with any degree of certainty the actual wastage shown in production, but the figures appear to the auditors very high.

The company paid large sums of money to W. M. Egan, for reasons stated in the report on Egan.

The agreement with the Bermuda Export by the company gives rise to an additional claim by the Department against the company for sales and gallonage taxes as explained in the report on the Bermuda Export Company.

RECOMMENDATION

That action should be taken against the company to collect the sales and gallonage taxes due.

WITNESSES

E. C. Andrich, Volume VI, Windsor, page 16,192.
 E. Thistle, Volume VI, Windsor, page 16,201; 16,214.
 S. A. Griggs, Volume VI, Windsor, page 16,206.
 A. E. Nash, Volume VI, Windsor, page 16,216.
 R. H. Bernard, Volume IV, Montreal, page 19,204.
 EXHIBITS No. 668 and 669.

BRITISH COLUMBIA DISTILLERY COMPANY LIMITED

This is a distillery company having its head office and distillery at New Westminster, in the province of British Columbia. The chief irregularities and violations of the Customs Act alleged against this company may be classified under the following heads:—

(1) Making false export entries in respect of,—

- (a) Two shipments of liquor via SS. *Prince Albert*, consigned to W. O. Watson, Ensenada, Mexico;
- (b) Two shipments of liquor via SS. *Principio*, consigned to J. Hamilton, San Jose, Guatemala.

2. Producing false and fraudulent landing certificates. As these shipments were exports in bond (excise), the company was required to give a bond for the production of landing certificates from the port of destination. Two landing certificates produced in respect of the shipments via SS. *Prince Albert* purported to be signed by "F. Alaniz, Audana, Maritima de Ensenada" and "W. D. Madden, British Vice-Counsel;" but the evidence before us raises strong doubts as to the authority of these signatories to sign such documents and as to the genuineness of these signatures.

In respect of the two latter shipments via SS. *Principio* the bonds given by the company for excise duty were not at the date of our investigation released, and the evidence produced before us satisfies us that these shipments were not in point of fact ever landed at their alleged destination, and raises the strong presumption that the goods were smuggled into the United States.

SALES TAX

The evidence indicates that the sales taxes have been paid on all the products sold except the shipments in question, and excepting certain sales or transfers to companies associated with this company. There was evidence before us which cast doubt upon the claims of the company that the goods contained in the shipments were exported by the company, but rather indicated the same were exported by the purchasers, and in the latter event would appear to be subject to sales tax.

INCOME TAX

The reports of the Commission's auditors show that the company in computing its income tax deducted certain sums as expenses which are not properly deductible under the rulings of the department.

RECOMMENDATIONS

(1) That action be taken to enforce the bonds covering the shipments referred to;

(2) That appropriate proceedings be taken to collect the arrears of sales tax due by this company when the liability of companies under similar circumstances has been determined by the courts;

(3) That the evidence taken before the Commission and the reports of the Commission's auditors contained in Exhibit 249 be transmitted to the Income Tax Department to review the assessment of this company, in order that proceedings may be taken to collect the arrears properly chargeable against this company.

WITNESSES

G. C. Reifel, Volume VII, Vancouver, page 6,333.

G. W. Twitney, Volume X, Vancouver, page 6,842.

A. E. Nash, Volume X, Vancouver, page 6,866.

T. A. Andrew, Volume XI, Vancouver, page 7,055.

EXHIBITS No. 249 and 494.

CONSOLIDATED DISTILLERIES LIMITED, MONTREAL
WISER'S DISTILLERY COMPANY LIMITED

These companies are subsidiaries of and allied to Canadian Industrial Alcohol Company Limited of Montreal. The operations of these companies were investigated during the period from October 1, 1922, to December 31, 1926. During that time, large quantities of the product of these companies were sold to the Consolidated Exporters Corporation Limited of Vancouver for export. The goods were shipped from the distilleries in question to the Consolidated Exporters Corporation, Vancouver, under bond in double the amount of the excise duty, the condition of the bond being that the goods and every part thereof should be duly shipped and exported and entered for consumption or for warehouse at the port named in the export entry and that proof of such exportation and entry should be furnished in accordance with regulations. The regulations governing such proof of exportation and entry require the production of a certificate by the proper official at the port of destination named in the export entry of the actual landing and delivery of the said goods at said port. The Consolidated Exporters Corporation in respect of practically all of said goods entered into agreements with the said distillers to indemnify them against

any duty which they might be called upon to pay the Government of Canada through failure of the Consolidated Exporters Corporation to produce satisfactory landing certificates.

The evidence shows that practically all of said goods were entered for export at customs and ostensibly shipped to points in Mexico and Central and South America but that the names of the consignees entered at customs were fictitious; that the liquors were not landed at the points designated in the export entries but, on the contrary, were largely disposed of off the coast of the United States to be smuggled into the United States and to some extent were apparently delivered off the coast of Canada and smuggled back into Canada. The evidence also shows that false and fraudulent landing certificates were procured with reference to such goods and that such certificates were presented to Customs and that on the strength of such certificates, the bonds of the respective distilleries were delivered up and cancelled. On the goods so exported, neither duty nor sales tax was paid. These companies also sold large quantities of their product duty-paid for exportation to the United States through the port of Windsor, the sales and deliveries being ostensibly made to one J. M. Arron, Detroit. The evidence indicates that delivery of these liquors so purporting to be exported to the United States was made at the docks on the Canadian side of the Detroit river and that thereafter these companies had no further interest in such goods. No sales tax has been paid on these goods as the companies contend that the sales tax does not apply. On the assumption that the sales tax does apply, there is owing in respect of the goods so sold by the Consolidated Distilleries Limited—\$973,677.23, and in respect of the Wiser Distillery Company Limited—\$86,078.04.

RECOMMENDATIONS

(1) That as to the sales made for exportation under bond, all outstanding bonds with reference to such shipments be enforced;

(2) That where bonds covering such shipments have been delivered up or cancelled because of the production of false and fraudulent landing certificates, action be taken to enforce payment of same;

(3) That action be taken to recover sales tax on sales made for export to the United States.

WITNESSES

- L. F. McCaughey, Volume XVIII, Toronto, page 18,234.
- A. W. Cathcart, Volume XVIII, Toronto, page 18,380.
- H. Massey, Volume XIX, Toronto, page 18,576.
- L. Hoffman, Volume III, Windsor, page 15,587.
- L. Hoffman, Volume III, Windsor, page 15,615.
- O. Paquette, Volume III, Windsor, page 15,620.
- C. H. Williams, Volume VI, Windsor, page 16,103..
- S. Harris, Volume IX, Windsor, page 16,675.
- A. Vandever, Volume II, Niagara Falls, page 18,041.
- J. G. Lawrence, Volume IX, Montreal, page 19,964.
- F. J. Flanagan, Volume IX, Montreal, page 20,101.
- L. E. Whittaker, Volume III, St. John, page 20,896.
- W. C. Dunford, Volume II, Windsor, page 15,530.
- A. E. Nash, Volume X, Vancouver, page 6,868.
- R. T. Ferguson, Volume VIII-A, Ottawa-Argument, page 23,613.
- E. A. Geen, Volume VIII, Montreal, page 19,930.
- G. H. McArthur, Volume VIII, Montreal, page 19,939.
- W. Cole, Volume VIII, Montreal, page 19,942.
- F. McLenaghan, Volume VIII, Montreal, page 19,944.
- G. Hutson, Volume IX, Montreal, page 19,995.
- D. Piche, Volume II, Windsor, page 15,457.

Re Wiser's

W. C. Brown, Volume VIII, Montreal, page 19,912.

W. C. Brown, Volume VIII, Montreal, page 19,928.

E. A. McPherson, Volume VIII, Montreal, page 19,920.

E. A. Cook, Volume VIII, Montreal, page 19,927.

E. L. Phillips, Volume IX, Montreal, page 20,001.

E. L. Phillips, Volume IX, Montreal, page 20,009.

D. S. Carlisle, Volume IX, Montreal, page 20,004.

EXHIBITS Nos., Consolidated: 201, 249, 427, 450, 896, 897, 898, 899, and 913. Wiser's: 890, 891, 892, 901, 902, and 903.

THE DISTILLERS CORPORATION LIMITED

This company was incorporated in August, 1925, under the Dominion Companies Act, and up to the date of our inquiry the operations of the company appear to have been carried on in regular order, and call for no comment except in regard to the sales tax in respect of shipments which were treated in the company's records as export shipments to the United States.

The company withheld payment of the sales tax on these shipments awaiting decision in the test case now before the courts as to whether or not these were *bona fide* exports, and as such entitled to exemption from sales tax. According to the auditors of the commission there was due in this respect for the period up to March 31, 1927, the sum of \$40,051.51.

RECOMMENDATION

That action be taken against the company to recover the arrears of sales and gallonage taxes due.

WITNESSES

S: J. Low, Volume VII, Windsor, page 16,300.

M. Nathanson, Volume XI, Windsor, page 16,964.

A. E. Nash, Volume VI, Montreal, page 19,521.

A. E. Nash, Volume X, Vancouver, page 6,880.

EXHIBIT No. 868.

DOMINION DISTILLERS

The Parliamentary Committee reported against this company, which is located in Montreal, and upon the direction then given, an action was taken by the department. We have limited our investigation to the period beginning on the 29th of May, 1926.

The company manufactures alcohol, potable or denatured, and disposes of it in Canada and by exporting same. It has also handled the products of Hiram Walker and Sons Limited.

Most of the alleged export sales were delivered at the Windsor docks to O. Paquette, C. A. Savard and J. Cooper. The company claims that no sales tax is due on its exports. This contention is not admitted by the department and the amount in dispute, according to our auditors, is \$13,105.67 for the period from the 1st of May, 1926, to the 31st of March, 1927.

RECOMMENDATION

That the amount due for sales tax by the company be collected.

WITNESSES

C. Brown, Volume IX, Toronto, page 13,761.
F. C. Bartholomew, Volume XIX, Toronto, page 18,557.
D. Piche, Volume II, Windsor, page 15,457.
O. Paquette, Volume III, Windsor, page 15,620.
C. A. Savard, Volume VIII, Windsor, page 16,400.
S. V. Beck, Volume XI, Windsor, page 16,923.
J. Cooper, Volume XI, Windsor, page 16,936.
G. Parker, Volume IX, Montreal, page 20,064.
L. Harris, Volume VII, Windsor, page 16,270.
A. E. Nash, Volume IX, Montreal, page 20,055.
W. J. Brown, Volume XI, Windsor, page 16,881.
G. W. Taylor, Volume IIa, Ottawa, page 22,570.
EXHIBITS Nos. 827 and 905.

FEDERAL DISTILLERY LIMITED

The Federal Distillery Limited was incorporated in August, 1924. On the 21st of the same month, it took over the assets of the Montreal Distillery Limited.

The activities of the company were investigated by the Parliamentary Committee and the auditors were instructed to make an examination of the books and records and report. The report covers the period from the inception of the company to the 31st of January, 1926.

Upon instructions from the department, a further examination was made by the same auditors to the 31st of October, 1925, and later, a partial examination of the books was made to the end of February, 1927.

We will deal only with the period not covered by the investigation of the Parliamentary Committee.

The company produces non-potable alcohol and also imports whiskeys for blending purposes. From November, 1926, to February, 1927, the company shipped duty-paid liquors to border points alleged to be for export to the United States. The department claims, and the company admits, sales tax on the said shipments. The company, however, claims as an offset the sum of \$3,311.36 as a refund of sales tax paid on Scotch whiskey imported and used for blending in the goods thus shipped.

Since October, 1926, the company made a considerable number of sales of what purports to be denatured spirits.

It was found that 10,991 gallons of number 2 Pyridine entered in the excise books of the company as having been shipped, were not accounted for in the financial books and that a shipment of 5,409 gallons recorded as being sold to a certain company in St. John, N.B., had neither been ordered nor received by that company.

When the matter was discovered, the officers of the company made contradictory explanations thereof. The first contention was that the 10,000 gallons were put in one J. Mercier's garage. This man Mercier could not be found at first, but later it was explained that he had delivered the alcohol to one Lamarre's garage in Montreal. The alcohol could not be found in Lamarre's garage at first but after a certain time, it was reported that it was there. As the circumstances appeared very suspicious, the department had an analysis made of a sample of alcohol taken from the barrels in Lamarre's garage and the alcohol that was supposed to be number 2 Pyridine, denatured spirits, was found so only for a part thereof.

As for the 5,409 gallons supposed to have been sold to a New Brunswick druggist, the explanation given was that an order was received from a man unknown who gave a name and who himself took delivery of the alcohol at the distillery. It was found also that numerous sales were made as cash sales to persons unknown or on orders that were merely slips of paper with no address thereon.

The Quebec Liquor Commission complained to the department against the activities of this company. The explanations given by the officials are not satisfactory. The president appeared to know nothing of the business and the man in charge of the sales is one Rabinovitch, whose activities in the liquor business in different parts of the country have been usually of a questionable character.

RECOMMENDATION

That the department force its claim as to sales tax due by the company and that the future activities of this company be closely scrutinized.

WITNESSES

A. E. Nash, Volume IV, Montreal, page 19,098.
S. Harris, Volume IX, Windsor, page 16,680.
A. Pollock, Volume IV, Montreal, pages 19,119, 19,190.
C. W. Robb, Volume IV, Montreal, pages 19,135, 19,176.
G. Kalfas, Volume IV, Montreal, page 19,151.
J. W. Snowden, Volume IV, Montreal, page 19,170.
P. Brais, Volume IXa, Ottawa, page 23,780.
EXHIBITS Nos. 860, 861, 861a, and 1069.

GOODERHAM & WORTS

This company was formed in December 1923, is located in Toronto and has taken over the assets of Gooderham & Worts Company. It manufactures practically every kind of alcohol, potable and non-potable spirits.

The company has sold a large quantity of liquors for export to the United States. The system adopted was as follows:—

Orders would come by phone, wire or letter, from persons in Canada or the United States, mentioning the brands and quantities, the name of the consignee and the place of destination. The place of destination was always in the United States and the consignee was from that country. When the order was verbal or by phone, or from a point in Canada, a written order was secured invariably from a point in the United States and, if no other better way was found, the company would wire to a telegraph office in the States giving instructions to send the company a telegram as drafted, which contained an order and gave the point of destination and the name of the consignee.

The company had agents in the United States to solicit orders, especially in the vicinity of Niagara Falls and Detroit.

The company owned a dock on the lake near its plant and used form B-13 for delivery of the liquor at the dock, when transportation was by water. The company took no further interest in the liquor after delivery at the dock, on the boat.

When shipment was made by rail, the bill of lading was accompanied by form B-13, and the car consigned to the importer or his agent at some point on the border. Sometimes the car was sent to the order of Gooderham & Worts with instructions to notify the agent of the importer. The liquor was unloaded at the port under customs supervision, by the importer or his agent. The control of the company over the liquor ceased with the delivery on the cars.

SALES TAX

As to the sales tax, the company contends that it does not apply to its exports of duty paid liquor to the United States. The department did not agree with this contention and has made a claim for sales tax up to November 30, 1924, which claim is now before the Courts.

The sales tax from the 1st of January, 1924, when the company started operations, to the 31st of March, 1926, would, according to the auditor's report, amount to \$192,189.64.

It was disclosed by an examination of the books of the company that large unvouchered payments were made, which were charged as part of the cost of operation, under various headings which did not show the real nature of the expenditures. Most of these payments were deducted from the profits before arriving at the amount upon which Income Tax was payable by the company to the government. The evidence disclosed that these payments were principally for political and propaganda purposes. In so far as contributed for Federal political purposes, they were illegal and contrary to the provisions of section 10, chapter 46 of the Dominion Elections Act, 10-11 George V.

RECOMMENDATIONS

(1) That the evidence and exhibits relating to income tax of the company be reviewed by the Commissioner of Taxation, with a view to collect such further sums as would appear to be properly payable in respect of income tax;

(2) That action be taken to recover all arrears of sales taxes.

WITNESSES

H. Hatch, Volume VII, Toronto, page 13,438.
H. Hatch, Volume XVI, Toronto, page 15,062.
L. L. Sinclair, Volume VII, Toronto, page 13,468 and 13,540.
E. J. Croake, Volume VII, Toronto, page 13,480.
F. S. Harris, Volume VII, Toronto, page 13,482.
J. V. Horne, Volume III, Toronto, page 12,863.
J. V. Horne, Volume VII, Toronto, page 13,495.
J. V. Horne, Volume IX, Toronto, page 13,820.
L. B. Hurst, Volume VII, Toronto, page 13,510.
J. H. Bertram, Volume VII, Toronto, page 13,518.
J. H. Bertram, Volume VIII, Toronto, page 13,737.
J. B. Kerr, Volume VII, Toronto, page 13,591.
Bessie Perry, Volume VIII, Toronto, page 13,616.
J. Thibideau, Volume VIII, Toronto, page 13,636.
G. Hardy, Volume VIII, Toronto, page 13,692.
M. Bernardo, Volume VIII, Toronto, page 13,705.
J. S. Coon, Volume VIII, Toronto, page 13,754.
A. E. Nash, Volume IX, Toronto, page 13,775.
A. E. Nash, Volume IX, Windsor, page 16,626.
A. E. Nash, Volume XII, Windsor, page 17,055.
H. Sutton, Volume X, Toronto, page 14,031.
A. W. Cathcart, Volume XVIII, Toronto, page 18,380.
P. C. Bartholomew, Volume XIX, Toronto, page 18,557.
H. Massey, Volume XIX, Toronto, page 18,576.
L. Hoffman, Volume III, Windsor, page 15,587.
A. Paquette, Volume III, Windsor, page 15,620.
A. Paquette, Volume VI, Windsor, page 16,121.
A. Paquette, Volume IX, Windsor, page 16,630.

C. A. Savard, Volume VIII, Windsor, page 16,400.
C. A. Savard, Volume IX, Windsor, page 16,658.
L. Harris, Volume VII, Windsor, page 16,283.
L. Harris, Volume IX, Windsor, page 16,675.
C. Thibideau, Volume IV, Hamilton, page 17,675.
J. J. Fitzpatrick, Volume VIII, Toronto, page 13,662.
D. Caplan, Volume VII, Windsor, page 16,375.
F. Elliott, Volume I, Hamilton, page 17,200.
R. T. Ferguson, Volume VIII-A, Ottawa, page 23,637.
EXHIBITS Nos. 736, 739, 828, 657, 658, 694 and 563 to 567 inclusive.

JOSEPH KENNEDY LIMITED

This company operates one of the several export houses engaged in the export of liquor in the province of British Columbia. It has a customs bond in its warehouse in order to facilitate the operations of its business.

Our investigation discloses a great many irregularities, some of a very serious nature, in connection with this company. The books of account and records were not kept in such manner as to admit of proper examination by the auditors for the Sales Tax and Income Tax Branches, and certain of the books and records were destroyed or missing at the date of our investigation.

Our investigation was to some extent frustrated by the absence of important officials and employees of the company, and generally the conduct of the company was such as to merit severe comment.

The principal business of this company was the export of liquor to the United States, and in its operations it bottled liquors and used labels which had not been registered with the department or approved of by it in apparent contravention of section 186 of the Excise Act.

There was also considerable evidence which established that forged United States revenue stamps were attached to bottles containing liquor bottled by this company, and this was apparently in contravention of section 479 of the Criminal Code.

The auditors of the commission discovered that in connection with the income tax return of the company for the year 1925 the sum of \$50,000 had been entered as charged to purchase account, whereas in fact it was not a purchase, and the result of such entry was to mislead the auditors of the Income Tax Branch, and prevent this company from being assessed the proper amount for such tax.

SALES TAX

The transactions of the company included sales of spirits produced by the British Columbia Distillery Company (an allied company) which had been transferred to this company either as purchaser or as agents, and no sales tax was paid on these spirits either by the British Columbia Distillery Company or this company.

This company formed one of a group of three composed besides itself of the British Columbia Distillery Company and the British Columbia Brewing Company, controlled by members of the Reifel family, and the operations of these companies were parallel in character.

RECOMMENDATION

That the evidence and exhibits be transmitted to the Income Tax Branch and the Sales Tax Branch for consideration in order that further investigation may be made and the assessment of this company reviewed and corrected.

WITNESSES

G. C. Reifel, Volume VII, Vancouver, page 6,333.
 G. C. Reifel, Volume VIII, Vancouver, page 6,628.
 G. C. Reifel, Volume X, Vancouver, page 6,821.
 G. W. Thompson, Volume VII, Vancouver, page 6,378.
 G. S. Wilson, Volume VII, Vancouver, page 6,394.
 G. S. Wilson, Volume XVII, Vancouver, page 7,982.
 A. W. Higgs, Volume VIII, Vancouver, page 6,642.
 A. W. Higgs, Volume XIV, Vancouver, page 7,462.
 J. E. Dicks, Volume II, Calgary, page 8,176.
 J. Thibideau, Volume VIII, Toronto, page 13,637.
 C. Burns, Volume XIII, Toronto, page 14,482.
 H. Massey, Volume IV, Hamilton, page 17,753.
 L. Hoffman, Volume III, Windsor, page 15,596.
 C. A. Savard, Volume VIII, Windsor, page 16,403.
 M. Nathanson, Volume XI, Windsor, page 16,965.
 O. D. Lampman, Volume X, Winnipeg, page 11,871.
 A. E. Nash, Volume X, Vancouver, page 6,866.
 A. E. Nash, Volume XVII, Vancouver, page 7,882.
 B. F. McEachern, Volume XIV, Vancouver, page 7,436.
 G. H. Hewitt, Volume XIV, Vancouver, page 7,440.
 H. J. Davis, Volume XVI, Vancouver, page 7,764.
 L. W. Milne, Volume XVI, Vancouver, page 7,840.
 E. W. Johnson, Volume XVII, Vancouver, page 7,956.
 Henry Reifel, Volume XI, Vancouver, page 6,995.

EXHIBITS Nos. 221-4 inc.; 245-9 inc.; 253; 273; 276; 284; 287-9 inc.;
 246-B-C.

MANITOBA REFINERIES COMPANY

This company was incorporated in 1925 and has its head office in the city of St. Boniface, Man. The company sells its products, denatured alcohol, whisky and gin to Provincial Liquor Commissions, to licensed manufacturers and agents and for export to the United States.

The company has paid no sales tax on its alleged exports. The auditors of the commission have computed the amount of sales tax due on account of such sales to the 30th of September, 1926, as \$3,766.06.

RECOMMENDATION

That action be taken by the department to recover the amount of sales so alleged to be due.

WITNESSES

A. E. Nash, Volume VIII, Winnipeg, page 11,675.
 J. Lee, Volume VIII, Winnipeg, page 11,670.
 EXHIBITS Nos. 427, 449, 451, 465A-B-C, 466 and 467.

JOSEPH E. SEAGRAM & SONS LIMITED

This company carries on the business of distillers at the town of Waterloo, in the province of Ontario.

SALES TAX

The auditors for the commission report that there was due for sales tax by this company up to December 31, 1923, on shipments alleged to be exported to the United States the sum of \$79,918.66. This liability is contingent upon its

being held by the courts that sales tax is payable by the company in respect of said shipments. The evidence discloses this company paid the sales tax on similar shipments during the years 1924 and 1925, but thereafter the company declined to pay the tax, alleging that no sales tax was payable. In the event of the liability to pay this tax being established it would appear that a very considerable sum is payable by this company in respect of such sales tax.

It appears that for the ten months of the year 1924 the company paid the sales tax computed on the value of the goods in bond in respect of domestic sales whereas for that period the sales tax was payable on the duty-paid value of the goods whether sold in bond or not. In respect of this discrepancy there appears to be due by this company the sum of \$903.92.

INCOME TAX

In the course of our investigation into the operations and affairs of this company it was disclosed that for the year 1921 and following years no dividends were paid by this company, while during that period a very large sum was added to the reserve, and in addition a large amount had been accumulated in the profit and loss account. The books of the company disclose that for the period mentioned there had been advanced to the three principal shareholders of the company very large amounts proportionate to the holdings of these shareholders in the stock of the company, so that it was apparently a distribution of profits without any formal declaration of dividends.

It was contended on behalf of the company that these advances were made by way of loans to the shareholders mentioned, but under the Dominion Companies' Act the company was forbidden to loan moneys to its shareholders, so that these advances would be illegal or ultra vires of the company's powers. It would therefore appear that these advances were, as already stated, distribution of the profits and under the circumstances would appear to render the recipients receiving them liable to pay income tax thereon, and in any event if these advances are to be treated as loans then there was a large amount of undivided or undistributed gains or profits of the corporation which would appear to be accumulated for the purpose of evading the tax and were in excess of what was reasonably required for the purposes of the business. As such, this would appear to be taxable income, subject to the rulings of the minister as provided in section 3, subsection 4, of the Income Tax Act of 1917 as amended by chapter 55, 9 and 10 George V, section 2, subsection 3.

RECOMMENDATIONS

..

(1) That action be taken by the department to recover the balance due by this company in respect of sales tax;

(2) That the annual statements of the company from 1920 to date may be reviewed by the Income Tax Branch in the light of the findings and the evidence in this case, with the object of determining the extent to which the three principal shareholders should be taxed in respect of the undistributed gains or profits of the company whether distributed or accumulated, and a proper assessment made and the income tax properly payable collected.

WITNESSES

M. Schiedel, Volume IX, Toronto, page 13,582.

W. Carthew, Volume IX, Toronto, page 13,895.

W. Carthew, Volume X, Toronto, pages 13,956; 14,001.

J. Ferguson, Volume X, Toronto, page 13,973.

W. A. Lorrimer, Volume X, Toronto, page 13,996.

A. E. Nash, Volume X, Toronto, page 14,010.
N. Seagram, Volume X, Toronto, page 13,984.
W. W. Ferguson, Volume X, Toronto, page 13,995.
S. J. Lowe, Volume IV, Hamilton, page 17,763.
S. Harris, Volume IX, Windsor, page 16,679.
J. Bailey, Volume I, Windsor, page 15,326.
EXHIBITS Nos. 570, 575 and 718.

HIRAM WALKER & SONS, LIMITED

This is a distillery carrying on business at Walkerville, Ont. Recently there was a change of ownership.

The investigation made by our auditors covered the period from 1922 until November, 1926. The operations of this distillery were partly investigated by the Parliamentary Committee. Large quantities of the company's product have been sold for export. On some of the liquors so sold for export, excise duty and sales tax were paid, but large quantities were sold and shipped under the bond of the company on which no sales tax or excise duty was paid. These shipments were ostensibly made and entered at customs for export to Mexico, Central America, Cuba and St. Pierre-Miquelon, a portion of the goods being shipped via Atlantic ports and a portion via Pacific ports.

The evidence indicates that in many of these shipments, the names of the consignees were fictitious, and that the goods never reached the ports entered at customs as the ports of destination, but were delivered elsewhere, and were apparently smuggled into the United States or into Canada. In other cases, there is grave doubt as to whether the goods were ever landed at the destination signified in the export entry.

Landing certificates were from time to time furnished the customs, and on the strength of these certificates, the bonds were delivered up or cancelled. These landing certificates were apparently in many cases false and fraudulent. The bonds covering such shipments were similar in character to those referred to in the cases of the Consolidated Distilleries Limited and Wiser's Distillery Company Limited.

The evidence also indicates that this company made large payments for which there were no proper vouchers and for purposes not recognized by the department as properly deductible for income tax purposes, and that the same were deducted from the profits of the company on the income tax returns made from year to year. The evidence suggests that the income tax returns of this company and the settlements made of the income tax should be reviewed.

RECOMMENDATIONS

(1) That an investigation be made as to whether or not the goods so purporting to be shipped to the countries above mentioned were in reality delivered in such countries, and whether or not the landing certificates which were furnished to customs were false and fraudulent; and if, on such investigation, it is found that the goods were not so delivered, that action be taken to recover the amount of the bonds covering such shipments.

(2) That the returns and settlements made of the income tax by this company be reviewed in the light of the evidence.

WITNESSES

W. J. Hume, Volume III, Windsor, page 15,638.
L. Hoffman, Volume III, Windsor, page 15,596.

O. Paquette, Volume VI, Windsor, page 16,123.
 O. Paquette, Volume IX, Windsor, page 16,630.
 O. Paquette, Volume IX, Windsor, page 16,637.
 L. Harris, Volume VII, Windsor, page 16,283.
 A. E. Nash, Volume X, Windsor, page 16,780.
 A. E. Nash, Volume XI, Windsor, page 16,832.
 A. E. Nash, Volume XII, Windsor, page 17,051.
 C. H. Harwood, Volume X, Windsor, page 16,811.
 C. H. Harwood, Volume XI, Windsor, page 16,835.
 E. F. Ladore, Volume XI, Windsor, page 16,840.
 E. F. Ladore, Volume XII, Windsor, page 17,045.
 C. W. Isaacs, Volume XI, Windsor, page 16,861.
 C. P. Laing, Volume XI, Windsor, page 16,865.
 E. M. McLean, Volume XI, Windsor, page 16,867.
 C. King, Volume XI, Windsor, page 16,879.
 W. J. Brown, Volume XI, Windsor, page 16,881.
 A. G. Belleperche, Volume XI, Windsor, page 16,890.
 F. Weir, Volume XI, Windsor, page 16,895.
 J. H. Ross, Volume XI, Windsor, page 16,906.
 J. Bailey, Volume XI, Windsor, page 16,913.
 S. V. Beck, Volume XI, Windsor, page 16,923.
 J. Cooper, Volume XI, Windsor, page 16,936.
 EXHIBITS Nos. 698-702; 704 to 710 inc.; 1071B.

UNITED DISTILLERS LIMITED

This company was incorporated in December, 1924, and commenced operations on February 1, 1926.

As its name implies it operates a distillery which is located at the city of Vancouver, in the province of British Columbia.

The only matter disclosed by the evidence that calls for notice or comment in respect to the operations of the distillery is as to an exceptionally large deficiency between the production of the distillery and the returns made to the Government for excise duty. The auditors of the commission estimated that at the date of their investigation the duty on this deficiency amounted to nearly \$30,000. The contention of the company was that part of this excessive amount was due to its method of treating spirits to produce artificially the effect of age, and also that much the larger portion was due to defective plates in the distilling column causing leakage. The matter had been referred to the department for investigation and adjustment, and was in process of adjustment at the date of our inquiry.

On September 23, 1926, the company shipped to St. Pierre-Miquelon 11,210.87 proof gallons of spirits, but at the date of our inquiry the landing certificates had not been received.

We think it proper to call attention to another fact in connection with shipments made by this company to Glasgow, Scotland, which had not the necessary age. These spirits were landed at Glasgow and part reshipped to the Consolidated Exporters Corporation Limited at Vancouver, and part of the remainder bottled and returned. All the return shipments were made on through bills of lading via Vancouver to points in Central America.

As the question of the deficiency in connection with the excise taxes was under adjustment at the date of our inquiry, we do not think it desirable to make any recommendation further than that the matter be proceeded with and steps taken to collect whatever duties may be payable by this company.

WITNESSES

A. L. McLennan, Volume XIV, Vancouver, page 7,544.
Russell Whitelaw, Volume VII, Vancouver, page 6,475.
Russell Whitelaw, Volume VIII, Vancouver, page 6,489.
A. E. Nash, Volume X, Vancouver, page 6,866.
EXHIBITS Nos. 249 and 494.

The evidence bearing on all these matters will accompany our final report which is now in course of preparation and which will be forwarded within a few days.

Where we recommend action to recover sales and gallonage taxes on beer and liquors sold for export to the United States, we do not mean that such action should necessarily be taken pending the hearing and decision of the test case or cases which have been brought to determine liability in connection with such sales.

We recommend that in all cases herein reported, the evidence be transmitted to the Department of National Revenue for such action as may in each case be recommended, or as the circumstances of the case may warrant.

All of which is respectfully submitted.

J. T. BROWN (*Chairman*),
W. H. WRIGHT,
ERNEST ROY,
Commissioners.

OTTAWA, October 14, 1927.

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